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Mid Year Review of the Economy 1990-91

by

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Prolegomena

It is not easy to review at this mid year point the state of the economy in 1990-91. For one, the year marks the end of one five year Plan period, the Seventh Plan 1985-90, and the start of a new one, the Eighth Plan 1990-1995. This transitional phase from one Plan to another involves such issues as spill over of projects, carry over of funds, advance obligations incurred, and the unresolved problems of continuing projects and of new programmes which are difficult enough to resolve. What adds to the nature and size of the problem of reviewing the economy for this year is the apparent discontinuity in some of the basics of planning and land marks of the economy to be introduced by the New Plan set forth in the Approach Paper to the Eighth Plan. This new Plan is the product of the new government. There is a coincidence between the establishment of a new government which is not continuous with those of the past and the formulation of the new Plan. There are therefore some imponderables and unknowns in the economy that cannot be measured and forecast for the year in question and have to be guessed at.

There are some new policies formulated for the Eighth Plan, which will have to start being implemented this year. As of now, they are only plans and pledges. These new policies include; a national agricultural policy and its corollary of the new weightage given to agriculture in the Eighth Plan outlay; the plan to make the right to work a fundamental right in the constitution and its translation into a massive employment generation programme in the Eighth Plan: the invoking of article

295 of the Constitution in relation to some facets of fiscal policy: and the policy of democratic decentralisation both in regard to the political structures and economic plan formulation and execution. The problem for the mid year review is how far these new policies will become actually operational this year, in 1990-91, so that they can be reviewed. At this mid year point, the operationalisation of some of these innovative policies for this year does not seem possible.

The documentation and source of data for the review continue to be CSO's National Account Statistics 1980-81 to 1988-89 its quick estimates, NSS rounds including the first results of the latest 43rd round, the Economic Survey, the Annual Reports of the Reserve Bank for 1988-89 and 1989-90, its Reports on Currency and Finance for 1988-89 and its monthly bulletins and occasional papers, data from the Planning Commission, the Annual Survey of Industries, the Agricultural Situation, and source material from non governmental expert bodies like the Centre for Monitoring the Indian Economy, the National Council of Applied Economic Research, the Madras Institute of Development Studies, the Economic Times and its research Bureau. Data from some international agencies like the World Bank, ILO and the UN are also used sparingly.

This data continues to present three major problems. First there are important areas on which there is no annual time series available. This is true with regard to the state of poverty in the country, and even more seriously with regard to the state of employment in what is called the unorganised sector of the economy which covers over 90 per cent of the economy. The exception to this is the data available in regard to some parts of the small scale sector in the organised sector. This gap is serious in view of the new thrust to what the new Eighth Five Year Plan Aproach proposes for the economy. Its major thrust is employment and remunerative employment generation, on which no information is available with regard to the large and decisive areas called the unorganised sector particularly in the rural areas. This makes it impossible to review and evaluate the realisation of the most important facet of the economy in 1990-91. The second problem is the dated nature of most of the official data. The official data of the economy as issued by CSO is available upto and for the year 1988-89 - except for its monthly report on the index of industrial growth, which is available upto March 1990 (as at August 1990). The data from ASI is even more dated and that from NSS is made available at least with a year's delay because of the processing of the data involved. A third difficulty is the problem of reconciling and harmonising the data which relates to differing time periods in the year as for agriculture which runs from July-June, and for various crops like oil seeds, cotton, sugarcane, each of which has a different year timings. This delay and time lag in the

release of official data involves a certain amount of forecasting and guestimating which weakens the reliability of the mid year review to which last year's mid year review called attention in summarising the forecasts alongside of the actuals for the 5 years 1985-86 to 1989-90.[1] There are also differing analysis and contents interpretation of the data as they relate to investments and savings - net and gross -, and possibly even more serious is this year, when the country's foreign exchange reserves have fallen to five weeks financing of its imports, is the uncertainity caused by the differing data on the country's imports and the trade deficit provided by the DGCI-S and RBI. The reconciliation of the differing data is undertaken, with the full realisation that there may be margin of error involved.

Allowing for these limitations the mid year review begins with an overall view of the economy.

An Apercu

At this mid year point, the economy in 1990-91 presents positive and negative elements. On the positive side, it has prospects of a good monsoon for the third year in succession, which should result in reaching the foodgrain target of 176 million tonnes and adequate yield of oil seeds, sugarcane, cotton and the jute crop. The industry perspective are equally hopeful, as mining is improving (except that the floods are temporarily holding up work in the eastern coal fields), manufacturing industry has picked up to its 1989-90 growth rate in major industrial groups, except for consumer durables, and electricity

is likely to surpass last year's performance. The essential infrastructure of services will contribute a third of the national income in 1990-91. It will be noted that no overall rate of growth of the economy for 1990-91 is forecast, unlike that of 1989-90, where an overall growth rate of 4 to 4.5 per cent and a per capita growth of 2.3 per cent are estimated, with the VII Plan recording for all 5 years a growth rate of 5.2 to 5.5 per cent and per capita growth 3 to 3.4 per cent. The reason why such an overall forecast is not made is because this review has repeatedly stated that the growth rate is misleading: further the Planning Commission has down-graded the overall growth rate approach, and is concentrating instead on the performance of individual crops, manufacturing groups etc, which is an indication of both the real performance of the economy and its impact on the well being or ill being of the people. The Approach Paper to the Eighth Plan lays down the broad guidelines of development in each sector, which is both a continuing of the past trends, along with some much needed innovations. In planning, the decision to decentralise plan formulation and execution to the states and to elected local bodies will bring about change during the year, the result of which cannot be foreseen now. One innovation is to increase the total investment in agriculture and rural activities to 50 per cent of plan and non plan outlays, and its implementation which has started in 1990-91 raises questions of what is to be included under agricultural and rural outlays and whether the target, even if the methodology of its computation is settled, will be attained in a phased manner over the Eighth Five Year Plan.

On fiscal matters, the first major negative element for 1990-91 comes into play, and that is the very high revenue deficit of over Rs.13000 crores which has been brought down to Rs.7200 crores by use of the capital account surplus. The questions here are a)the use of capital account resources to finance current account expenses, particularly the run away non development expenditures, and b) whether the amount of the deficit which is still high can be held to that amount, without the establishment of monetary ceilings, recommended 3 years ago by the Sukhumoy Chakravarty committee, and accepted by the government but not implemented. The other fiscal issues is the effect of the Ninth Finance Commission awards on the finances of the states and the alternative to the Award proposal in the Review.

One direct effect of the fiscal imbalance is the growing public debt, internal and foreign, which is the second negative point in the economy. On internal debts, the burden of interest payment has reached a point where the net proceeds of market borrowings in 1990-91 are gradually declining, adding to the government's resources crunch. On the foreign debt, which is related to the Balance of Payments pressure, the level of Rs.100,000 crores of indebtedness places India in the fourth rank of the world's largest debtors, and raises the debt service ratio to 30 per cent - a danger point being stressed by the Finance Minister.

A third major negative point in the economy in 1990-91 is the continuous rise in prices - both wholesale and consumer - in the first two quarters of the year, so that the current inflation rate of 9 per cent over a 12 month period, might well lead to a double digit deficit inflation figure for the year.

In agriculture, as noted earlier, because of the good south west monsoon, all the foodgrains and cash crops are doing well. The questions of emphasising the agro climatic zones approach, the extension of the minor irrigation, the dry land farming expansion and water shed development are raised. One major issue which is still under discussion is the agricultural policy of the country - comparable to the Industrial policy resolution. The many issues on agricultural prices, imports, credit and infrastructure for the farming community are urgent and raise questions which may carry beyond 1990-91. The need for improving the measuring and forecasting machinery for cotton and oil seeds are particularly stressed, as well as the urgent need to make a breakthrough in pulses production.

In manufactures, there is an unresolved question at this stage as to how manufacturing growth could be increased by a high 19 per cent in the last quarter of 1989-90. This may affect the growth record of manufactures in 1990-91. The new industrial policy is reviewed and questions raised on three of its provisions - on the import of 30 per cent of capital goods by the entrepreneurs at concessional duty rate, on imports of raw

materials and components by them,, and the freedom for foreign investors to invest upto 40 per cent in any company. The problems of capital intensity of the manufacturing sector are examined with recommendations switch over from producing capital guzzling consumer durables to wage goods and intermediates. The opening of the steel sector to private enterprise is welcomed as the means of closing the supply and demand gap. The problems of small scale sector which has a crucial role to play in the new employment dominated economic policy is analysed. The problems of industrial sickness and means of curing it are suggested. In the public sector, the possibility of shedding non essential and perenially loss making enterprises which are identified is recommended. In the private sector, the problem of their export intensity is examined and its investment trend in 1990-91 forecast. Individual industries are selectively examined and the problems in each, notably in automobiles, fertilisers, textiles and drugs and pharmaceuticals analysed.

The infrastructure comprising crude and gas, electricity, coal, railway and shipping and non conventional energy is examined in relation to 1990-91. Here the opening of electricity to the private sector will provide some relief, particularly to manufacturing industry which bears the major burden of power cuts. But the private sector's contribution to total power supply will be minimal in the first years and its tariff will be higher than that of the state supply.

Human Resources tasks in 1990-91 are set forth, with some corrections on what is officially proposed such as "the total overhauling of its educational system". It is recommended that technology in the year should follow more closely the 1983 Technology Policy Statement and depend more on internal R&D.

The Savings and Investment section brings out the urgency of raising the gross domestic savings from the 20.5 per cent of GDP in 1989-90 to 21 per cent in 1990-91 as a step to move towards 22 per cent in the Eighth Plan. The means of doing so is shown to be only means of not continuing to rely on foreign investment as a means of industrial growth in 1990-91. (The Reserve Bank's preliminary estimate is that domestic savings have risen from 20.8 per cent of GDP in 1988-89 to 21.4 per cent in 1989-90).

The Balance of Payment deficit which is the fourth minus point is examined and its relation to the fiscal deficit, to inflation, to foreign borrowing is brought out. The suggestion here is not only to increase exports and cut down on imports as a means of reducing the trade deficit, but also to improve the inflow on invisibles through certain policy and pragmatic steps. In fact unless the balance of payments deficit is corrected, India's position in its trading relations with the industrial countries, in GATT, in dealing with the US Super 301 will be adversely affected.

How all these facets of the economy contribute to the employment generation objective is then examined. Here two issues are highlighted. First, taking the backlog of unemployment from 1989-90 which is 28 million and adding to it the addition to the labour force in the Eighth Plan of 37 million, the need to create employment for 65 million persons is shown to be a difficult task, so that a realistic target would be to aim at creating employment for two thirds of that number. Second, the pledge of the Right to Work is examined and its workability set forth.

Finally all this activity must result in improvement of the standard of living of the ordinary man. What does that mean and by how much can it be improved? Here the data on poverty made available by the World Bank and three ministries of government are analysed and feasible programmes of poverty alleviation and inequality reduction are proposed.

(Adendum 10A)

(Addendum to Apercu)

The effect of the Gulf crisis on the economy

As the Mid Year Review was completed by the beginning of August, before the Gulf crisis erupted, its effect on the economy during 1990-91 was not taken into account and does not figure in the detailed review set forth in the following pages. These effects may be briefly noted. The effects of the Gulf crisis, seen as at Mid October 1990, on the economy for the current year deal for the most part with the seven short term issues: there are also a bit of crysal gazing on four medium and long term effects on the Eighth Plan and beyond.

The short term effects of the Gulf crisis may be examined in relation to (a) the crude oil import bill, b) the expatriate remittances and deposits from the Gulf countries, c) the loss of exports to that area, d) the work of Indian companies in that area, e) the balance of payments, f) the prices, g) savings, h)the budget. The analysis of these seven areas should also cover solutions, if any, to the problems. The medium and long term effects include issues relating to a) the crude oil scenario, b) energy intensity of country's industry and agriculture, c) employment, and d)class distribution and redistribution perspectives.

On the assumption that the spot price of crude will average $25 a barrel during the rest of the year (rising from 14 per barrel), the crude oil import bill will increase by Rs.4200 crores ($2.4 billion plus the increasing cost of transport of

crude, such as tanker charges, wharfage etc) for 1990-91.

The loss in remittances and deposits from Indian workers in Kuwait and Iraq will be Rs.400 crores (205 million) during the year. Repatriation costs will be Rs.400 crores ($205 million).

The loss of exports to that area will be Rs.360 crores ($200 million) during the balance of the year.

The loss of contracts and work by Indian firms is computed at Rs.400 croress ($205 million).

Thus the balance of payments will worsen by $3 billion.

The effect on prices and the inflationary situation will be mixed. It will not be serious from one point of view, as the Gulf crisis on the monetary side has a deflationary effect. This is brought out in the Reserve Bank Governor's declaration in October, announcing the credit policy of the busy season for the year, that between March 23, 1990 to September 21, 1990 M_3 increased by 5.2 per cent compared to 8.5 per cent in the comparable period 1989. But the hike in oil prices will have cascading effects on all forms of transport and the prices of primary articles conveyed by it. The overall effect on prices will be a price rise of 12 to 13 per cent for the year.

The effect of the Gulf crisis on savings will be to make it more difficult to attain for the year's savings target of 21 per cent of GDP. The loss of remittances and non resident deposits were referred to earlier, but these figures were related to Iraq and Kuwait remittances only. There are also wider negative effects related to the remittances from the region which will have a depressing effect on, the attaining of the savings target.

(Addendum 10 C)

The effect of the crisis on the budget for the year will be seen mainly in the level of deficit which has been budgeted at Rs.7200 crores. Using the Box-Jenkins method, the Finance Minister reported to the monsoon session of parliament that as at end of July 1990 the deficit was Rs.9926 crores which was Rss.1500 crores less than the corresponding figures of Rs.11390 crores in 1989. But this relative advantage is disappearing as by the end of September the difference in the deficit between the 2 years has declined to Rs.1200 crores. The Gulf crisis and the additional demands of the ministries involve an impact of Rs.3000 crores addition. If there is some economising and belt tightening, the deficit is now computed at Rs.9000 crores for the year.

There are two issues in regard to the solution to this issue of how the additional $3 billion, which is the overall impact of the Gulf crisis, can be financed. For this a number of suggestions can be made. First the budget deficit should be revised to a realistic figure caused by Gulf crisis and on the basis of Article 292, a debt ceiling for 1990-91 should be passed by parliament. Second that ceiling should take into account in additional revenue from increases taxes or administered prices proposed to the winter session of parliament, that will be levied for the balance of the year. There should be an increase in the surcharge on income tax and a surcharge on corporation tax, to take effect from December 1, 1990. Similarly the prices of petrol products, which are all lower than international prices should be raised. All this may net Rs.1000-1500 crores during

the balance of the year. Third there must be a rigorous energy conservation policy, as set forth later in this note under section, crude, immediately enforced. Fourth borrowing will have to be selectively resorted to. The borrowing from the new facility created by World Bank at its last Annual meeting and a modified compensatory and contingency financing facility (CCFF) from IMF should also be fully explored. Above all there has to be a good deal belt tightening in the government, in the public and private sector, and by individuals and families to back up the class neutral deflationary monetary and fiscal policy which has been earlier advocated.

On the long term effects, the major issue is how far the economy's energy intensity - in agriculture and industry - can be controlled and reduced. This need not have a retarding effect on the development of the economy, as the decline in the energy intensity of the economies of the industrialised countries shows. Unfortunately there is no short term or medium policy on conservation of energy to date by firms, by agriculture, by transport undertakings, by all sectors of the economy. This should be developed and put in place.

The long term perspective in the crude oil scene is rather bleak for the country. On the strength of the Bombay High discovery, crude imports were reduced from 70 per cent in the seventies to 30 per cent in the eighties. But the Bombay High and the country's crude reserves are fast running, out and the perspective for the future is that crude imports will be back to the

seventies percentage level. It will be the major source of crude supply. Hence the urgent need for the energy conservation policy.

The long term effect of the Gulf crisis on employment could be positive, if it makes the economy less energy intensive and more labour intensive. This is the aim of the long term perspective plan - to make employment central to the economy and to provide full employment for all by the turn of the century.

This long term employment objective can be attained only if there is a sizable reduction in the consumption pattern, asset holdings and standard of living of the top 25 per cent of society. There are very serious distributional consequences involved, which can be faced if we move towards a labour intensive and wage goods economy.

The Economy

In reference to the year just ended 1989-90 and the Seventh Plan, the usual short hand indicator of growth and development, namely the rate of growth of the economy may be used, as that was built into the annual 1989-90 plan as well as into the Seventh Plan[2]. As noted earlier, the official data on the growth rate for 1989-90 will be relased only with CSO's quick estimates of national income and related aggregates in February 1991. In the interim, the Economic Survey 1989-90 places the growth rate for the year at 4 to 4.5 per cent and the Annual Report of the

Ministry of Finance (1989-90) tilts in favour of the higher range 4.5 per cent- "from an observation of the provisional estimate of various macro - economic variables", it states [3]. This is also the conclusion of the Annual Report of the Reserve Bank of India 1989-90 [4]. If the rate of growth of the economy in 1989-90 is thus taken as 4 - 4.5 per cent, then the Seventh Plan growth rate averages 5.2 to 5.5 per cent as the table below shows, against the Seventh Plan target of 5 per cent.

Table I

Year	Agricultural growth	Industrial growth	Services growth	Overall growth	Per Capita growth
1985-86	0.1	7.1	8.0	4.8	2.6
1986-87	-1.9	7.6	7.0	3.6	1.6
1987-88	0.4	5.1	6.1	3.5	1.6
1988-89	18.3	7.8	7.0	11.1	9.0
1989-90	1.7	5.5	6.3	4 to 4.5	2.3
Seventh Plan Annual average	3.5	6.6	6.9	5.2 to 5.5	3-3.4

Source: CSO's National Account and Quick Estimates

The rather high average overall growth rate and the per capita growth rate registered in the above table for the Seventh Plan are rather heavily influenced by the recovery rates of agriculture at 18.3 per cent. Taking the latest year, 1988-89, for which details of private final consumption are available, the rate of consumption of fixed capital and the stock piling of inventories with the household sector, show that the increased GDP, overall or per capita, has not led to improved standards of living of the poor majority seen in the lower share of food items

in total consumption, has led to increased outflow of factor income, and has not improved the production base of the economy, seen in the increased stock piling. Further, the structural distortion of the economy under which agriculture's contribution to GDP falls from 34.7 per cent in 1980-81 to 28.3 per cent in 1987-88, while the work force dependent on agriculture decreased only from 65 to 63 per cent, the absolute numbers increasing by over 20 million because of population increases, is a continuing cause of worry and is against the priority objective of the Eighth Five Year Plan.

For the current year, 1990-91, the review of the economy will not be based as in the past on the growth rates of the economy, but on how far during the year, the specific micro targets for employment generation have been attained. The details of the employment issues will be discussed later under the employment and labour conditions section. The extent to which the year will see a realisation of target of 3 per cent of employment generation set for the Eighth Plan, will depend on the break down of this figure by the various sectors of agriculture, irrigation, dairying and animal husbandry as well as small, cottage and village industries and housing construction. In the first half of the year, there are plans for employment generation and for meeting under employment which will be attained as at March 31, 1991 at more than 50 per cent of the plans, because of the time taken for preparing for the exercise as the high level of the magnitudes involved.

Similarly, in agriculture there were three commissions at work, setting forth the tasks to be attained during the year and the Plan period: their recommendations , inter alia, include: agriculture should be given the same facilities as industry and given that status as far as all infrastructure - roads, water supply, power and above all credit institutions and availability - is concerned; agricultural outlays should be doubled in 5 years to ensure a growth rate of 6 per cent per annum; farm products exports should be rapidly accelerated; bringing to production the 175 million hectares of degraded land out of the total of 264 hectares of recently degraded land, treating 85 million hectares of it for soil and water conservation and the remaining 87 million hectares as forests; command areas development and drainage in canal irrigated areas to be increased; and the monitoring of the health and productivity of over worked agricultural soils which are cropped 2 or 3 times a year. The farming community to be involved in all decision making concerning agriculture, which should aim at a better life for the farming community and the attainment of the goals of efficiency, employment, equity, ecological conservation, management of land and water use, and a formula for a more scientific as well as pragmatic base for computing agricultural prices. Here again these recommendations need to be incorporated into the ongoing programmes - except that the over concentration on industry, which leaving aside the public sector, contributes less than 8 per cent to GDP, should be replaced by a new emphasis on agriculture and allied activities, which is our main source of

production and employment. There are some corrections with regard to the proposed policy and programmes on agriculture. The most important is that as of now, what is proposed speaks in the language of the large and middle farmers, with no reference to the small farmers and landless labourers who are the majority of the farming community. It is based on the theory that the benefits of the large farmers will trickle down to small and marginal farmers and landless labourers, this has not happened in forty years of planning.

A brief comment on the structural change and development of the economy just referred to and which in a sense will update the analysis on this issue in past mid year reviews is needed because now National Account Statistics are also updated by the series 1988a issue in February, 1988b in May, 1989 a in March and 1989 b in June with the help of which the following table is constructed showing the structural change in the economy over the 7 plans:

Table II

(percentage)

Sector	I Plan (1951-56)	II Plan (1956-61)	III Plan (1961-66)	Annual Plans (1966-69)	IV Plan (1969-74)	V Plan (1974-79)	VI Plan (1980-83)	VII Plan (1985-88)*
1.Primary Sector	54.9	51.8	46.6	43.6	42.9	40.6	36.8	32.11
1.1 Agri-culture	49.0	46.5	41.6	38.4	38.1	36.3	34.0	29.8
2.Secondary Sector	15.7	17.9	21.2	22.5	23.0	23.8	25.0	27.7
2.1 Manu-facturing	11.9	13.5	15.8	16.0	16.7	17.5	18.6	21.1
3.Tertiary Sector	29.4	30.3	32.2	33.9	34.1	35.6	38.2	40.2
4.Commodity producing sectors	66.8	65.3	62.4	59.6	59.6	58.1	55.4	53.2
5.Essential Infrastructure	23.8	25.2	27.4	29.2	29.1	30.6	32.4	33.6
6.Other services	7.2	7.0	7.2	7.6	7.3	7.1	7.4	7.8
7.Public Administration & Defence	2.2	2.5	3.0	3.6	4	4.2	4.8	8.4
8. Total	100	100	100	100	100	100	100	100

* NAS data for 1988-89 and 1989-90 not yet published.

Source: NAS February 1988 to June 1989

The table shows a continuous fall in the share of the primary sector and in agriculture to GDP which has been picked up by the secondary sector including manufacturing, and the tertiary sector, which the new series results in a different interpretation of the growth rates. Unlike past mid year review analyses, the tertiary sector has been divided into essential services - (communication, transport, banking etc), essential to the growth of industry and agriculture and other services, which shows that the major increase in the tertiary sector has been in support of the commodity producing sector. The really disturbing part is the steady growth of public administration and defence which when put together with other non essential services has increased by nearly 50 per cent.

The health of the economy in 1990-91 will depend on the thrust areas - employment and agriculture -, being accompanied by fiscal stability, reversing price inflation and correcting the growing pressure on the balance of payments. The embodiment of these in the Annual and Eighth Five Year Plan may now be examined.

Plan

The two main developments in the area of the Plan have been the establishment of the 1990-91 Annual Plan and of the Approach Paper to the Eighth Five Year Plan. The Annual Plan has been established under certain rather serious limitations. First, in the absence of the Five Year Plan or the Plan frame or the

Approach to the Plan as decided by the National Development Council, the first year Plan has been established largely as a continuation of the 1989-90 Plan. The Union outlay for the 1990-91 plan is Rs.39.329 crores compared to the 1989-90 revised outlay of Rs.35,713 crores. There were marginal increases in every item except power at Rs.4613 crores compared to the previous year's Rs.4728 crores and industrial development at Rs.382 crores compared to Rs.409 crores in 1989-90. Such of the state plans as have been approved follow a similar line of 10-12 per cent increase over that of the previous year. The total outlay of the union and state plans amount to Rs.65,000 crores. The pledge that agriculture and rural development outlays will move towards 50 per cent of the total outlay is nowhere near realisation in the first year's Annual Plan. To reach this objective, a planning commission study in early 1990 estimates that the attainment of the 50 per cent target of public sector outlays for rural areas and peoples will require that the shares of the states plans on rural activities would have to be raised from the current 59 per cent to 65 per cent and that of the union sector from the present 32 per cent to 35 per cent. My computation shows that the total plan outlays on agriculture and rural development (except for the VI and VII Plans) are not only low but declining sharply as the two tables below show. In Table III below, the outlays are limited to agriculture and allied activities, irrigation and rural development and village industries.

Table III

	I Plan 1951-56			II Plan 1956-61			III Plan 1961-66			IV Plan 1969-74			V Plan 1974-79			VI Plan 1980-85			VII Plan 1985-90		
	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total
1.Agriculture 2.Forestry 3.Animal husbandry 4.Fisheries 5.Irrigation 6.Rural Development 7.Village & Cottage Industries	45924.7	37595.60	83520.30	2790.81	95120.23	12461.23	26380.00	147552.00	173842.00	593.88	1526.71	2125.69	1633.49	2862.91	4496.33	7000.40	20779.67	27783.98	11078.07	31445.85	42523.92
Percentage of above to total outlay	54.92	45.07	45.41	22.36	76.32	25.91	15.16	84.82	21.94	38.84	71.82	13.31	36.32	63.17	11.41	33.62	74.78	28.49	26.01	73.94	23.62

le IV below widens the Plan outlays on agriculture and rural activities to include the 7 items in Table II to which 20 per cent of the power outlays, 15 per cent of the outlay on transport including railways and munications, 66 per cent of the education outlays and 60 per cent of that on health are added.

le IV

	I Plan 1951-56			II Plan 1956-61			III Plan 1961-66			IV Plan 1969-74			V Plan 1974-79			VI Plan 1980-85			VII Plan 1985-90		
	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total	Union	States & UTs	Total
riculture restry imal sbandry sheries rigation ral evelopment llage & ttage dustries wer ansport & mmunication ducation ealth	62478.88	53339.98	115838.76	64056.67	123123.28	188779.24	60769.40	212477.35	273246.75	1266.82	2465.88	3854.40	2785.27	5236.20	8439.76	11056.16	26079.65	37139.72	22743.60	40940.18	63713.58
entage bove otal outlay	50.31	64.40	55.94	25.00	54.9	39.3	14.91	52.82	33.84	15.16	35.01	24.21	13.19	27.02	21.42	23.19	51.89	38.09	23.82	48.41	35.34

The Plannning Commission reports that taking plan and non plan outlays together for 1990-91, the share of agriculture and rural programmes in total outlays has been raised from 44 per cent in 1989-90 to 49 per cent in 1990-91. Given the varying and uncertain base of disturbing many items between the rural and non rural sectors, which the above tables and planning commission estimates show, it seems advisable to use these estimates solely as an approximate monitoring device on all outlays, public and private, union and states, with the corollary that they have to be increased per se and through diversion of outlays from non rural to rural areas.

The second development is the paper on the Approach to the Eighth Five Year plan which was reviewed and approved by the National Development Council. Over two years had been spent upto now in discussing the possible rates of growth for Eighth Plan as between 6 per cent, 6.5 per cent and 7 per cent. This approach is now discarded, with concentration on what is to be substance of and central focus of the plan, which is the needs of ordinary people and quality of their life through major emphasis of employment, giving operational content of the right to work for every citizen, earmarking 50 per cent of the investible resources to agriculture and rural development, which will be not departmental wise schemes but integrated local area plans, which in turn will require democratic decentralisation of the plan to the states and local government bodies. The Approach provides for elimination of illiteracy by the end 1990, rapid promotion of overall development, diversification of the economy and a

strengthened infrastructural base and greater attention to conservation of natural resources, delivering adequate health care to the people, shift in family planning programmes from contraceptives of women's status, female literacy and control of infant mortality. It emphasises a discriminating use of S&T, industrial planning reforms to further non discretionary control instruments, and the improvement of the efficiency and competitiveness of Indian industry for enhancing its contribution to exports and import substitution and strengthening SSI and labour intensive units. The public sector is to focus on infrastructure, key intermediate goods, strategic commodities and social services, with greater private sector involvement in areas now largely retained by the public sector. At the insistance of the council of ministers, certain numbers have been added such as the target of 5.5 per cent annual average growth rate during the plan, employment growth at 3 per cent over the decade, a savings rate of 22 per cent of GDP, net foreign resources inflow of 1 per cent of GDP and 12 per cent of annual value of growth in exports.[5] Apart from these numbers being an obvious after thought, not flowing from the substance of what is proposed, what is lacking is the means by which these agreed goals and objectives should be attained. That is the task of the state plans and the panchayat level plans which will now be formulated on the basis of these agreed guidelines and within the financial parameters laid down by the commission. And that is the major contribution of the Approach Paper - that the union plan should be guideline providing, standard setting and indicating financial

resources as ceilings, leaving plan formulation to the states and panchayats. It is hoped that the Eighth Plan document will conform to this model. That is the task to be accomplished in the second half of this year. This guide lining and standard setting approach is new, as is the discussion and consultation on all major issues by the planning commission members and the states allotted to each of them. Most of the rest of the proposals in the Approach Paper is contained also in earlier plans which have not however been followed and executed. This time there should be execution, which will be assured, if there is decentralisation of planning. The opportunity for decentralised planning, that is for the national Eighth Five Year Plan, to be a synthesis state plans plus, for each state plan to be a synthesis of Panchayat Unions plans plus, has been missed for the Eighth Plan . But a start can be made in trying out some limited decentralisation at both levels in preparing the Second Annual Plan (1991-1992) during the third quarter of this year. The support or otherwise of the fiscal scenario to these planning imperatives need review.

Fiscal Relations

To start the review of the fiscal scenario for 1990-91, the budget for the year has, on the whole, likely to have a negative impact. On the one hand, it is a soft budget as it raises only Rs.1790 crores additionally for financing the number of operations referred to in the earlier sections. Taking two issues of inadequate financing, Rs.1000 crores is provided for wiping out all farmers debts upto Rs.10,000, and no provision is

made for the new Employment Guarantee scheme introduced in the budget. On the non tax side, the rise in petrol, diesel, aviation fuel prices which will net Rs.834 crores, the postal hike Rs.207 crores in a full year and Rs.170 crores this year, the railways increase in fares and rates to gather Rs.892 crores and the increase in telecom tariff which will bring in Rs.600 crores - all add up to a total of Rs.2498 crores. Putting together the tax revenue and the administered price and railway rates increases, the aggregate of Rs.4278 crores is inadequate to meet the government's commitments during the year - in particular in regard to employment generation and agricultural development. Second unlike the promise made in the Economic Survey[6] "to increase the yield from direct taxes" and widen its base, the budget allows one million income tax payers to get out the tax net. The additional receipt from direct taxes, after reliefs of Rs.1858 crores forms 12 per cent of total additional receipts. Direct taxes as per cent of total receipts are 13.4 per cent-1990-91 to 13.2 per cent in the previous year. Similarly against the Economic Survey's call to rationalise and simplify the system of indirect taxes so that "they promote equity and economic efficiency", the analysis of indirect taxes in the 80s shows no correlation between excise duties levied and collected and progressivity, and that increasing administered prices also decreases progressivity, particularly when the indirect taxes are specific and not advalorem.[7] Third, the states' share in the Rs.1790 additional tax revenue is a mere Rs.3 crores, because though their share of excise is Rs.173 crores, on income tax

revenue their loss is Rs.170 crores and the rest of the tax income comes from non divisible heads - the Rs800 crores from corporation tax and Rs.835 crores from customs. This non sharing in the increase of additional tax receipts by the states makes decentralization, one of the cardinal policies of the Eighth Plan referred to earlier, difficult. Fourth, in relation to the Finance minister's opening comment in his budget speech that "the first task of the new government was to contain the rise in prices", the instruments in the budget for this purpose were :a) provision for various incentives to promote savings, which will reduce private final consumptions, and b) the higher customs and excise taxes on "the consumption of luxury items" which will lead to reduced demand for them and containment of prices. But given the liquidity of the economy and the cascading effects of the taxes on petroleum and transportation generally, the control of inflation is not self evident and events since have recorded a disturbing rise in prices, which the government admits. Fifth, the only way that inflation and the various deficits - budgetary, financial and balance of payments - that will be presently referred to could have been contained was by cutting back on the demand side, on non plan expenditures. Against this, every item of non development expenditure shows an increase in 1990-91 compared to the revised budget for 1989-90. Finally and most disconcerting are the various deficits set forth in the table below:

Table V

(Rs.crores)

	1989-90 Budget	1989-90 Revised	1990-91 Budget
1.Revenue Account Deficit	-7915	-13,339	-14,991
2.Capital Account Surplus + Deficit -	-325	+686	+5,820
3.Deficit before taxes	-8240	-12,653	-9,165
4.Additional Receipts	+903	+903	+1,959
5.Final deficit	-7,337	-14,300	-7,206

Source : 1990-91 Budget documents

The table shows some disturbing features of the budget deficit. First, the capital account surplus of Rs.5820 crores is being used not for Plan investment but to meet the current account deficit. Second, the revenue account deficit in 1990-91 is the highest on record. Here the inappropriate assimilation of the oil coordination committee fund of Rs.2300 crores in 1989-90 means that the revised revenue and final deficit for that year should be increased by Rs.2300 crores. The net RBI credit to government is shown as Rs.7206 crores in 1990-91. Actually on March 18, 1990, on the eve of the presentation of the budget, the net RBI credit to government was Rs.17,102 crores. It is not known why the finance minister put the budgetary deficit at Rs.13790 crores on December 1, 1989 while presenting the budget. The deficit is computed at Rs.9165 crores at 1989-90 tax rates. Here there are two further elements that need to be taken into account in looking at the problem of deficit financing. One is the RBI credit to the government of the states should be added. The

second is that the credit from other banks should be added. On this the record for the past few years is as follows: in 1981-82 in addition to the RBI credit to the union and state governments of Rs.2413 crores, credit from the other banks was Rs.3572 crores totalling Rs.5985 crores: in 1982-83 it was Rs.2741 crores + Rs.2522 crores, totalling Rs.4242 crores: in 1983-84 it was Rs.2018 crores + Rs.2134 crores totalling Rs.4242 crore and so on for subsequent years. The budget deficit could have been sizably reduced if a)administration and staff had been reduced by not filling posts which fall vacant, b) fertilisers subsidy were cut to the size needed to help small and marginal farmers only and to ensure that the subsidy reaches those for whom it is meant, in the words of the finance minister, c) the export subsidy is reduced, closing the useless trade offices which are living on this subsidy, d) defence expenditures, particularly its capital component are scrutinised and reduced to cut the fat, and e)development activities which belong to the states under list II in the constitution now inappropriately taken over under the centrally sponsored schemes are transferred back to the states. On the question of the deficit, the offer of the Finance Minister to Parliament to place before it periodically a review of the budget, to accept a statutory limit on the budget deficit on the basis of Article 250 of the constitution, and beyond that, the establishment of monetary and credit ceilings for the year by the government in agreement with the Reserve Bank as recommended by the Sukhumoy Chakravarti committee report[8] and the further refinement of that by the Ninth Finance Commission[9] to the

effect that any excess beyond the ceiling should first be discussed and approved by the Parliament need to be ratified and acted upon. As far the effect of the budget on the serious balance of payment deficit, the budget levies on imports have no effect on it. If the levy on oil imports is set aside, the other customs duties will raise an additional Rs.144 crores which should be set off against the customs reliefs given in the budget of Rs.145 crores. More important for dealing with the balance of payments deficit is the new 3 year Import-Export policy whose effect on the deficit during 1990-91 will be analysed later.

The other major fiscal development is the final report of the Ninth Fiscal commission[10] whose recommendations have been accepted by the government. These are i) the immediate acceptance of the recommendations on the allocation to the union government and transfers to the states. On this vertical transfer, despite the use of normative criteria, which involve a very heavy subjective judgement at every stage, particularly in computing the growth of revenues and current revenues surpluses of the states, the financial relations between the union and the states continue seemingly unchanged, but in reality are worsened. The states got 22.65 per cent of the total revenue receipts from the Eighth Finance Commission, and now the Ninth Finance Commission's recommendations give the states about the same, namely 22.74 per cent but to make this percentage comparable to that of the Eighth Finance Commission, the plan grants should be excluded, which makes the share of the states 20.8 per cent. This financial erosion for the states, which will now get about

one fifth of total receipts goes against all norms of decentralisation on which there is general agreement in government and the public, but which the commission's recommendation belie. Further on the vertical transfer, the states will still be under rather strict financial discipline, while the union has no such binding rule, but a suggested convention to limit the deficit financing of the union government in any given year to an amount established in agreement with the Reserve Bank, with the proviso that any excess above it should be discussed and approved by parliament. This is not good enough because the convention is voluntary, unlike the Reserve Bank sanctions on the states and if the convention is broken and reserve money is created, the states budgets will be upset by the resulting inflation. On the horizontal inter state awards, because of its use of the normative yardstick, there is an inequitable scheme of deficit plan grants proposed under which 3 states with non plan revenue surpluses do not need plan deficit grants, while the plan deficit grant for seven states is skewed. Thus the plan deficit grant recommended by the commission have no equitable relation to the deficits of the states. An adjusted alternative scheme of awards within the commission's financial parameters with regard to the normative estimates on non plan revenue account is presented in the table below, as worked out by S.Guhan[11].

Table VI

		Commission Awarded			Adjusted Awarded		
		Initial Surplus or Deficit	Plan Deficit Grant	Final Surplus or Deficit	Initial Surplus or Deficit	Plan Deficit Grant	Final Surplus or Deficit
1.	Andhra Pradesh	1891.02	341.25	2232.27	3070.64		3070.64
2.	Gujarat	2613.74	-	2613.74	2613.74		2613.74
3.	Haryana	1878.66	-	1878.66	1878.66		1868.66
4.	Karnataka	2939.69	-	2939.69	3212.49		3212.49
5.	Maharashtra	8722.96	-	8722.96	872.46		8722.46
6.	Punjab	732.45	53.91	786.36	732.45		732.45
7.	Tamil Nadu	2490.04	43.79	2533.83	2490.04		2490.04
8.	Bihar	-1203.45	1374.27	170.82	-1203.45	986.40	-250.05
9.	Kerala	-823.71	412.54	-411.17	78.81	-	78.81
10.	Madhya Pradesh	-1358.82	1047.81	-311.01	-821.65	678.05	-148.60
11.	West Bengal	-1048.23	998.65	-49.58	17.26	-	17.26
12.	Orissa	-1109.00	554.50	-554.50	-1109.00	908.99	-200.01
13.	Rajasthan	-1920.00	960.40	-960.40	-1920.80	1547.38	-346.43
14.	Uttar Pradesh	-5773.00	2886.50	-2886.50	-5773.00	4731.83	-1041.17

Source: Ninth Finance Commission and S.Guhan

Finally and following from the above, the commission's recommendations do not give adequate attention to the problems of reducing regional disparities: in fact the reduction of the weightage given to the distance factor will make backward regions and the poor states more backward and poorer: equally the replacement of the poverty factor by the backwardness factor has favoured states with large SC and ST population. In sum, the limitations which have been pointed out here stem essentially from the terms of reference imposed on the commission, on the execution of which one of its members commented "the normative estimates derived from the econometric models is a mystery". Now that the Inter state council has been established as provided in article 263 of the constitution, this source of uncertainity and disagreement on future finance commissions can be avoided, if the council determines the terms of reference and advises its chairman on the membership of the commission.

It is now necessary to turn to the operations of the Stock Exchanges which are influenced by the fiscal scene briefly reviewed above.

Stock Exchange

The stock exchanges will continue during the balance of the year to record the fluctuations between high rise in values of shares and debentures followed by a fall in their value. The rise was registered because of mega issues and the actions of the Securities and Exchange Board of India (SEBI) to relate issues to

the schedule of heavy demand. A second source of recovery from low values is the intervention by financial institutions, UTC, LIC, GIC. A third occasion for a large spurt in the market was the 1990-91 budget announcement which provided a period of prolonged upward movement. It is in this context that the government has intervened to regulate the primary and secondary markets by giving the Securities and Exchange Board of India (SEBI) powers to regulate share and debentures issues of companies. The government has also issued guidelines for merchant bankers and mutual funds and for financial institutions to make their share transactions more transparent. Promoters are required to make advance contributions before the public issue opens. There must be a minimum of 90 per cent subscription against the entire issue to begin allotment and if the minimum is not reached, the entire subscription, which has been received, must be refunded within 90 days. Subscribers welcome these guidelines which safeguard and protect their interest. This is the reason why there is a good response by the investing public to issues of the existing companies and those promoted by tested entrepreneurs. There is need, however, for wider public participation in stock exchanges which is less than 2.5 per cent of the population and need further for stock exchanges being spread beyond the 5 metropolitan cities. Further some recent stock exchange modernisations are helping to boost activity in the primary market. The Bombay Stock Exchange is executing a Rs.10 crore automation project for accelerating its modernisation programme. The Calcutta Stock Exchange has set up a stock holding Corporation in association with the Canara Bank. The

Credit Rating Information Services of India (CRISIL) has been set up to offer investors equity research information and information on companies. Investment facilities under equity support schemes are being expanded. The secondary market assumes special importance in view of the resources crunch forcing public sector enterprises run by the union and some state governments to raise bonds and issue debentures in the capital market to meet their needs. These include the Indian Railways, SAIL, SCICI, FCI, etc. Further with the opening of sectors like electricity, steel and non ferrous metals and even airlines to the private sector, there will be in 1990-91 about Rs.20,000 crores raised in the secondary market to finance both private corporate and public sector needs. CMIE (Economic Outlook June 1990) reports an 80 per cent increase in capital issues in 1990 over 1989, with the public sector issues more than doubling and the private corporate sector increasing its issues by 50 per cent. These are actuals and do not take into account the two factors - the pressure on resources of the public sector enterprises and the opening up of some areas so far totally reserved for the public sector to the private corporate sector. One characteristic that has emerged in the late 80s is that the major shares, bonds and debentures subscriptions have been in the second half of the year. Hence it is forecast that the second half of 1990-91 will see around Rs.10,000 crores equities and debentures being transacted.

A part of this is included in the Public debt, to which we now turn.

Public Debt

Public Debt comprises government domestic debt and external debt. The internal public debt in turn comprises market borrowings, treasury bills, special securities issued to RBI, and other liabilities comprising small savings, provident funds etc. On this basis, the Economic Survey and RBI report that the country's internal public debt is Rs.231,692 crores in 1989-90 which is 53.8 per cent of the country's GDP, as against 35.7 per cent in 1980-81 and 45 per cent in 1985-86.[12] A distinction is made between Gross Domestic Debt (GDD) which is regarded as an accounting aggregate and Net Domestic Debt which excludes from GDD contra entries like securities issued to IMF and the World Bank and intra governmental liabilities. On this basis, the following table is presented to show the differing internal public debt dimensions:

Table VII

(Rs crores)

GDD (Revised)

Year	GDD reported by government	Net RBI credit to government	Domestic debt held outside	GDD revised	NDP
1970-71	13079	3843	7074	10917	1664
% of GDD	-	(35.2)	(64.8)	(100)	
% of GDP	(32.5)	(9.5)	(17.6)	(27.1)	(4.1)
1980-81	48151	15853	27174	42917	13626
% of GDD	-	(36.9)	(63.1)	(100)	-
% of GDP	(35.5)	(11.7)	(19.9)	(31.6)	(10.0)
1987-88	172038	52793	94680	147473	68638
% of GDD		(35.8)	(64.2)	(100)	-
% of GDP	(52.1)	(16.0)	(28.6)	(44.6)	(20.8)

Source: RBI Occasional Paper: September 1989[13]

The table shows the rapid increase in domestic debt in the 80s - whether it is gross domestic debt which has increased two and a half times or net domestic debt which has increased even more rapidly at four times. These increases reflect the growing government deficits referred to in the fiscal relations sectors comprising the total resources gap arising out of fiscal operations. This gross fiscal deficit is the excess of revenue expenditure and capital expenditure and net domestic lendings over revenue receipts and grants. From this point of view, the

usually reported budget deficit grossly understates the total resource gap. In 1987-88 the budget deficit was reported at Rs.5816 crores (2.3 per cent of GDP) whereas the gross fiscal deficit was Rs.22,169 crores (9.3 per cent of GDP) . As regards the distribution of the debt, the total shows the debt held by RBI as its net credit to government which creates the Reserve money, whereas the debt held outside the Reserve Bank has no monetary implications. The fact that the net RBI credit has been stable at around 36 per cent of the total debt means that it has grown proportionately to the debt held outside. The average cost of the increasing domestic debt has also increased over time, the average interest rate increasing from 4.6 per cent in 1970-71 to 8.7 per cent in 1987-88 (which is the combined aggregate of the 4.6 per cent interest paid by RBI on 91 days treasury bills remaining unchanged since July 1974 as the Sukhumoy Chakravarty report points out in 1986) and 11 to 12 per cent paid by RBI on its marketing borrowings, small savings, provident funds etc. Further from this analysis, the future debt financing scenario can be described which shows that the overall debt GDP ratio of which was 44.6 per cent in 1987-88 can, under the present rate of evolution of government deficit and domestic borrowings minus RBI credits, cross the 100 per cent mark in 1995-96, and reach 150 per cent by the turn of the century in 1999-2000. This calls for a serious reigning in of government deficits and a comprehensive analysis of the evolution and effects of the domestic debt, starting with constituting a reliable data base.

India's external debt is also rising equally rapidly as the table below shows.

Table VIII

Year	External Assistance (Concessional loans) (1)	IMF (2)	External Commercial borrowing (3)	Total (1)+(2)+(3) (4)	NRI Deposits (5)	Total (4)+(5) (6)
					(Rs crores)	
1985	24,004	4858	6908	35800	3819	39619
1986	26,638	5271	8073	39984	5650	45634
1987	32,312	5548	11243	49103	7847	56950
1988	36,578	4732	13543	54853	10054	64907
1989	46,838	3696	19147	69651	15154	83835
1990	54,649	2,573	24580	81802	17737	99539

Source: Reserve Bank of India 1985-89

There are four other estimates: one by the World Bank in its World debt tables (which places our total debt at $46,370 billion), a second by OECD (which places our total debt at $50376 billion), a third by the Institute of International Finance which places our debt at Rs.96,000 crores, and a fourth by the minister of finance in his statement to parliament in May when he places the external debt of the country at Rs.100,000 crores. As the Reserve Bank[14] explains all these estimates are near each other, the differences being due to the non inclusion of certain items and not covering debts due to certain banks. Hence the first point to note is that our external debt has shot up 120 per cent

during the VII Plan. Second,RBI points out that the debt export ratio rose sharply from 131 per cent in March 1980 to 218 per cent in March 1989. Third,the RBI places the debt service ratio at 16 per cent in 1985-86 shooting up to 26 per cent in March 1987. The Ministry of Finance report is that at March 1990, the debt service ratio is at the danger point of 30 per cent. This is a serious situation as the external debt has had to be financed largely through the inflow of capital by way of commercial borrowings, NRI deposits, and non concessional bilateral loans. There is even talk of an IMF loan which option the finance minister says is closed. The danger signals on our external debt situation are now clear. India is the fourth largest international debtor following Brazil, Mexico and Argentina. Here the differing burden of the internal debt and that of the external debt may be recalled. Whereas the repayments and interest payments of internal borrowings involve the transfer of resources from one group of persons or institutions to another within the country and its economy, the payments of interest and repayments of principal in the case of external debt involve a net outflow of resources from out of the economy and the country. To that extent the economy's capital formation and investment is reduced, with deleterious effects on its NNP and the standard of living after a certain level of indebtedness is passed. Hence this calls for a serious restructuring of our foreign trade and our borrowals abroad.

The present total loans situation - internal and external also has an inflationary impact and to this - the situation on prices - that we now turn.

Prices

The price situation is extremely disturbing. On top of the 8.6 per cent rise in prices measured by the wholesale price index in 1989-90, already the first quarter of 1990-91, that is as of June 1990 wholesale prices have risen by 3 per cent and for the year could reach 9-10 per cent. The index for the first quarter of 1990-91 is 8.7 per cent higher than in first quarter 1989-90. The consumer price index in 1989-90 was a somewhat moderate 6.6 per cent and registers a rise of 3.5 per cent in the first quarter of 1990-91. For this year, consumer prices could rise between 7-8 per cent. Some features of this inflationary pressure may be noted. First, the price rise in the first quarter of the year continues the heavier impact of the price rise on primary articles of the past. Under primary articles, which rose by 4.9 per cent in April and May the index of food articles increased by 4.9 per cent, cereals by 4.1 per cent, vegetables by 39.3 per cent and edible oils by 3.2per cent.[15] In the latest wholesale price index reported on June 30 at 3 per cent, more than 260 of the 1147 commodities in the index registered increases. The prices of cereals, barley, condiments, spices, fish and tea rose by 20 per cent. It should be noted that the rise in the prices of essential commodities at a monthly average of 2 per cent against the monthly general inflation rate of 1 per cent means that the price rise of wage goods is outstripping the general inflation rate which the Reserve Bank in every one of the annual reports since 1985-86 highlights and which increases real inequality, real inequality being defined as inequality expressed in size classes

expenditures in current prices after deflation by the price index. It is the lower half of the deciles - the poor - who bear the major impact of the price rise of the essentials that they need. The government admits that its policy is feeding inflation, that the steep hike in the tax on petroleum prices and the railway rates have fed inflation. So too the rise in the procurement and issue prices of wheat, rice, coarse grains, the minimum cane prices, of cotton and edible oil, cement, salt etc, all have fed the inflationary spiral, which as from March end to June end stands, as noted earlier, at 3 per cent and for the year at 8.7 per cent. On the demand side, the over hang of the liquidity of the economy is being further stimulated by the continuing large budget deficit established for 1989-90 at Rs.11750 crores which involved a reserve money creation of Rs.14300 crores, and for this year at Rs.7206 crores. Within this reserve money, M_1 and M_3, the currency component is increasing as seen in the sharp increase in note circulation in the first four months of 1989-90 being 4 per cent[16], and to that extent it reduces the RBIs power of influencing money supply. Money creation is thus no longer a Reserve Bank responsibility which has, as usual, in this year used the ineffective instruments of the raising of the Statutory Liquidity Ratio, which is only an indicator of the direction of credit and no regulator of its creation, and the Cash Reserve Ratio, which is an indicator of ceilings on credit creation by the banking net work, which the RBI's occasional paper states, is ignored by the banks when they find the controls too rigid in relation to their

requirements.[17] Money creation has become an indirect responsibility of the government through its decision on Bank funding of food and other procurements and buffer stocks. I repeat what was said earlier under the Ninth Finance Commission section that the only way to restore to the Reserve Bank its responsibility for regulating money supply is through the establishment of annual monetary ceilings which will also control and keep a check on both budget deficits and deficit financing. The price rise forecast for the year at a higher 8-10 per cent will worsen the trade deficit and the balance of payment pressure during 1990-91, by reducing the competitive levels and character of Indian exports. This might more than offset the rupees depreciation during the year and its effect on stimulating exports. Finally the volume of money supply stemming from the various sources referred to above during 1990-91 will affect prices, though not in a linear manner. In the first 2 months of 1990-91 money supply with the public and demand deposits comprising M_1 increased by 5.7 per cent and for the 12 months ended June 1 by 21.5 per cent, which is higher than the 19.1 per cent increase during the 12 months ending June 1989. Similarly M_3 increased by 3.7 per cent in the first 2 months and by 18.5 per cent for the year ending June 1, 1990. The juxtaposition of growth of money supply M_3, inflation (wholesale price rise) and GNP growth is set forth in the table below:

Table IX

Year	Inflation rate	M_3 per cent growth	GNP percent growth
1985-86	4.4	16.1	4.8
1986-87	5.8	18.8	3.6
1987-88	8.2	15.7	3.5
1988-89	7.5	18.1	11.1
1989-90	7.4	19.1	4 to 4.5

Source:CSO's National Account, Quick Survey and RBI Annual Reports.

For the current year, 1990-91, the forecast at this mid year point as rather sombre, with M_3 increasing at 20 per cent, GNP growth is not estimated in this paper but is forecast by RBI at 5 per cent and CMIE at 4.5 per cent, and the inflation rate 9-10 per cent. As of now, there is no contraction of M_1 and M_3, which makes the liquidity and inflation situation for the year grim and negates the conclusion of the Economic Survey to the effect that "the resolution of inflationary pressures has to be sought principally on the demand side, with particular atteention being devoted to correcting the underlying fiscal imbalances"[18].

On the basis of these basic factors it is now possible to examine at this mid year point the prospects for the various sectors and subsectors of the economy for starting with agriculture, taking into account past trends and developments.

Agriculture

The Agriculture section should begin with first looking at prospects for food and cash crops, animal husbandry and fisheries. Once again for the third year in succession, the south west monsoon has started on time and is evenly spread over the whole country. There are only six meteorological districts which are facing deficient rainfall at mid August. The monsoon is still the major determining factor in the output of agriculture, food and cash crops, and indirectly with regard to the allied activities of animal husbandry, poultry and inland fisheries.

On the basis of the monsoon, the targets which have been established for the current year 1990-91, do not seem unreasonable. There may be a marginal shortfall of 3 to 5 per cent in each target as happened in each of the last two years. The table below summarises the current year's target, together with CSO's data for 1988-89 and the projection for 1989-90.

Table X

Item	1990-91 Target	1989-90 Projection	1988-89 CSO data
Foodgrains (million tonnes)	176.5	172.0/173.0*	170.3
Oilseeds (million tonnes)	17.5	16.9	17.89
Cotton (lakh bales)	105.0	125.0	86.86
Jute and mesta (lakh bales)	92.0	82.0	77.03
Sugarcane (million tonnes)	220.0	210.40	204.63
Milk (million tonnes)	54	51.5	49.1
Eggs (billions)	20	19.6	18.7
Wool (million kgs)	42	42.7	41.5
Fish (lakh tonnes)	34.0	32.5	31.5
Tea (million kgs)	72.0	68.5	70.1
Coffee (lakh tonnes)	2.25	1.30	2.1
Rubber (lakh tonnes)	3.27	2.92	2.51

Source: CSO, Economic Survey, MIDS.

* The government projection of foodgrains for 1989-90 is 175 million tonnes which is rather optimistic[19]

The table above raises several issues.

First the Economic Survey data shows a disturbing trend with regard to the per capita availability of several items. In the case of foodgrains, the per capita for 1989 is 456.2 grammes and is likely to be the same this year, 1990: in 1988 it was only 413.4 grammes but already in 1978 it was 431.8 grammes. Within the foodgrains availability, the per capita availability of coarse grains has declined by 10 per cent, with its total being 33.90 million tonnes in 1989 as against 33.9 million tonnes in 1984. With the increased irrigation cultivation of jowar, bajra and maize, there should be some increase in this poor man's food this year. The pulses per capita availability jumped to 40.4 grammes in 1989 from the low 33.1 grammes in 1988, though per capita availability was 42.9 grams in 1986, 45.5 grams in 1978, 50.5 grames in 1977 and 70.3 grams in 1986. In this protein rich food crop, the progressive decline is disturbing, which in turn is due to only 8 per cent of the crop being under irrigation.

A second issue raised by the table and the disaggregated treatment of foodgrain relates to the changes in cropping patterns. As a result of the green revolution and the years following upto this year (1990-91 will be no exemption), the wheat and paddy area under cultivation have increased through substitution of these for coarse cereals, in 4 states for paddy, in 2 states for wheat, all involving two thirds of the 15 states substituting paddy, wheat and sugarcane in place, particularly by those who were producers of bajra, jowar, small millets, pulses

and cotton. The area under paddy and wheat in Punjab and sugarcane and cotton in Maharashtra increased due to increase in gross cropped area, through cropping intensity fed by irrigation. The increase in paddy hectarage in Assam, Karnataka and Orissa was due to increase in gross cropped areas, involving bringing marginal lands and uplands into cultivation.[20] The reasons for this two sided expansion is due to a number of support bases that the crops in question have received from the government in the form of technological support, price support, infrastructure, (roads, markets and irrigation) support: per contra, the substituted crops have had to face the handicaps of meeting subsistance requirements (and no market and price stimulation), lower price, where there is surplus and yield risks. Thus the green revolution strategy has involved changing cropping patterns resulting in crop imbalances, regional disparities and increased instability of production. The remedies on which action is needed starting in 1990-91 is the development of high yielding, pest, drought resistant varieties of all crops, starting now with coarse cereals, pulse and oil seeds. This should go along side of water shed development, particularly for dry areas, economic and efficient use of fertilisers to be made available to the small farmers, and a price and marketing policy for large growers of millets and pulses. The 15 agro climatic zones established on the basis of a commonality of agro climatic factors like soil type, rain fall, temperature, water resources should also build into it this reform of the cropping pattern.

A third issue is that contrary to the directive in the Approach Paper "that the proportion of development outlays on schemes benefitting rural population must be significantly raised, the target being 50 per cent", there is evidence of declining investment in agriculture. The gross capital formation in agriculture in the public sector has been declining since the Seventh Plan and is Rs.1484 crores in 1987-88 at 1980-81 prices and that of the private sector Rs.31,016 crores. Similarly net domestic capital formation in the public sector was Rs.1037 crores in 1987-88 and that of the private sector Rs.26,000 crores.[21] The later revisions by CSO in February 1988 taking account of RBI's latest All India Debt and Investment Survey and based on type of assets does not change the downward investment trend just referred to in the public and private sector due to a)the greater expenditure on revenue account in regard to wages and salaries and maintenance, reducing its share for assets - land, building and machinery, b) the low level of private investment in agriculture, despite the higher levels of institutional credit made available to it and c) the declining share of agriculture in GDP as noted in the opening section, alongside of the fact that those dependent on agriculture have not declined proportionately, so that the increasing proportion of marginal farmers and agricultural households do not have the resources for investment. And as pointed out by several studies, private investment in agriculture is influenced by the trend of public investment. For 1990-91, it is important that both public and private sector investment should be raised to start with, at

a growth rate of 5 per cent, so that agricultural investment in 1990-91 reaches Rs.7750 crores at 1980 prices against last year's Rs.4477 crores.

Another issue which should be settled during 1990-91 is the debt relief to the farmers. The programme has undergone rapid changes during the year. At the time of the budget presentation, it was narrowed to the small farmer having over dues upto Rs.10,000 crores. Later it was clarified that this would cover all farmers, rural artisans and fishermen. Still later it was made applicable to anyone without restriction of land owned "there will be no limit on the borrowers land holdings "stated the minister. The Union government took responsibility for debts owing to the public sector commercial banks. In June the programme was extended to those who have such over dues to the cooperative banks. Thus the scheme now extends to all farmers - those who have overdues with scheduled banks which are under the union government and those having over dues with cooperative and village banks which are under the state governments. The union government has arranged with the Reserve Bank to provide the states with a loan which will have to be repaid in 3 years to meet their 50 per cent share of the loan waiver. The cooperative sector loans amount to Rs.1500 crores and of this RBI is to advance a loan to the states of Rs.750 crores. Thus for the union government against the budget provision of Rs.1000 crores for this scheme, its total financial commitment has become Rs.2250 crores. This scheme is justified primarily on non technical grounds, as redeeming the government's election pledge.

Though it is a one shot affair, its being operated without any limits and safeguards sets a bad precedent, and already has given rise to the problem of farmers building up their over dues with the cooperative Central Banks to the point where they (the banks) will not be entitled to refinancing by NABARD.

One of the major functions of the Department of Food is procuring and stock piling foodgrains. It is reported that wheat procurement by May 1990 has reached 10.3 million tonnes and rice procurement has reached 11.2 million tonnes. By June 30, the foodgrain stock has reached 19 million tonnes, against the optimum buffer stock level of 21 million tonnes. The main contributions to the wheat stock are from Punjab, Haryana and West UP. The major contributions to rice procurement have been Punjab, UP and AP. This heavy concentration of foodgrains procurement to 3-4 states out of the 22 is a reflection of the serious imbalance in foodgrains production which the agro climatic zones approach should begin to correct in 1990-91, and move towards what the Approach Paper calls "a more broad based pattern of agricultural growth".

<u>Wheat and Paddy</u> <u>Wheat</u> ouput which had in 1989-90 a 5 per cent increase in acreage and a 10 per cent increase in productivity produced 1.5 million tonnes less at 52.50 million tonnes. The target for 1990-91 has been set, to get back its previous year's production of 53.9 million tonnes. It is, however, important as pointed out earlier that this increased

output should come from higher levels of production and not from diverting land from other crops to wheat. Here the problem is the pull of the market, the price factor, the relative profitability, on which there has to be trade off with growing of more essential but less income yielding crops like millets, cotton etc. Paddy production unlike wheat which is 80 per cent under irrigated farming, is grown for the major part (58 per cent) under dry farming conditions. Hence the emphasis in the Approach paper on "ending the neglect of vast rainfed and dryland areas", which applies not only to coarse grains and pulses production, but also to paddy production which average 40 per cent more than the wheat output. As 70 per cent of the area under paddy is in the eastern region, the Special Rice Production Programme, covering 439 blocks should in 1990-91 spread the local land and water development works, particularly water shed development programmes and other infrastructural facilities like drainage provision, input sales centres etc. Rice production has been targeted at 73.5 million tonnes which is attainable.

Millets and Pulses Millets and corase cereals. which form less than 20 per cent of the total foodgrains output are recording declining yields. For 1990-91 the targets for jowar are 12 million tonnes which is less than the 1987-88 output of 12.2 million tonnes, bajra at 8 million tonnes, maize at 9.5 million tonnes (which is the only millet showing increase over the last 4 years), ragi at 3 million tonnes, small millets 1.5 million tonnes and barley at 1.75 million tonnes. Except for

maize, all coarse grains output have been stagnating and its breaking out of their low and stagnant yield bind depends on making available high yielding certified seeds in adequate quantity to the growers who will then have an incentive to expand their cultivating area, the timely and adequate supply of inputs and adoption of an area approach, involving a package of practices suited to local conditions. The all India or even the area approach should this year be replaced by the panchayat approach, which is the only way coarse grains productions can be increased. Incidentally this will stop the scandalous fact reported by the Economic Survey that in 1988-89 and 1989-90 maize had to be imported to feed our live stock. Pulses grown over 18 per cent of the cultivated area, but constituting only 8 per cent of the total foodgrains production raises a number of issues calling for attention this year. First is the declining cultivating area which should be arrested and atleast kharif pulses in the current months should use early arhar varieties on kharif fallows and inter cropping. Second, the area expansion of pulses in dry areas should continue to counter the deceleration of its gross cropped area. Third and therefore the increases in pulses production this year and for the future will have to come from yield improvement, either through better inputs base or a technological breakthrough on which research and the centrally sponsored National Pulses Development project should concentrate. For rabi pulses in the second half of the year, what is needed is to fit rabi pulses into the irrigated farming system in Punjab, Haryana, Andhra Pradesh and Tamil Nadu and promote in all ways inter cropping of pulses with rabi mustard, sunflower and jowar.

Here again there is need for decentralised location - specific programmes for the production of gram, arhar, peas lentil, moong and urad, of which gram is the lead pulse.

<u>Cotton and oil seeds</u> <u>Cotton</u> production is booming in 1989-90 which in the cotton year running from August-July is estimated officially by the Cotton Advisory Board (CAB) at 125 lakh bales which has been indicated in Table IX. The problems faced by cotton growers and the trade are several. First there continues to be uncertainty about the output and availability of cotton. The trade places the 1989-90 output at 127 lakh bales against the CAB estimates of 125 bales. Second the total availability is estimated at 149.50 lakh bales and domestic demand plus carry over of 24 lakh bales is estimated at 136 lakh bales. On this too there are differences. The third problem is the export availability which in 1989-90 season is estimated at 13.85 lakh bales . The problem here is a double one. There is here too the problem of the lack of a firm estimate and there is the additional problem of creating uncertainty among our export customers in other countries. Here what is needed is a firm, if a modest figure of ensuring an annual export of 4-5 lakh bales which should be strictly adhered to, so that our foreign customers are not brought into a state of confusion and uncertainty as when we promised an annual export of 12 lakh bales and could not even deliver 75,000 bales in 1986-87. Finally there is the question of cotton price. Cotton prices fluctuate regularly. In 1989-90 cotton prices declined substantially

during the first half of the year as cotton stocks arrived on the market. After that, cotton prices stabilised as more than four fifth of the cotton crop was marketed. Probably given the bumper crop, prices should have fallen more sharply, but actually they were above the support prices. This kind of price fluctuation affect the grower and the buyer. What is urgently needed as we move into a new cotton year is to deal with all the four problems - a dependable estimate of output, a reliable estimate of total availability and carryover, the amount of export availability, and the evening out of cotton prices (on which the textile policy of 1985) has not been helpful either with regard to the price band for cotton or making available textiles to the mass of the people at affordable prices, on all of which the Abid Hussain committee referred to in the last mid year review has made recommendations in its 1988 report in regard to the price band for cotton, the key role of CCI and the export policy, on all of which the government states that it is studying the report. The most important is to devise a reliable system of forecasting yields as we have done for cereal crops. I have been pleading for this year after year and hope that a start can be made this year. <u>Oil seeds</u> present several problems. The first is the usual one of there being no firm fore cast and estimate of output. For 1988-89, the output estimates vary from the government's 178.9 lakh tonnes to the trade estimate of 163.30 lakh tonnes. There are similar varied estimations on imports of oil seeds between 3.8 lakh tonnes to 5.8 lakh tonnes, for which there is no excuse. For the oil seed year, 1989-90, similarly,

kharif production is placed by the government at 103.32 lakh tonnes, on which the trade estimate is 89 lakh tonnes. Second, there is even more uncertainty about the demand for oil seeds, where estimates vary widely. Third and as a consequence, it is difficult to establish the gap between supply and demand, and the extent to which the gap can be filled by increased and improved use of indigenous oil seeds - linseed, castor seed, safflower, niger seed, coconut, cotton seed, sunflower and soya beans in addition to the major oil seeds, groundnut, rape seed, mustard and sesamum - and by support price changes or by imports. Here it should be repeated that if some part of the supply demand gap has to be met by imports, it should be import of oil seeds and not import of edible oils. There is no doubt that oil seed production has increased since 1986-87 significantly, which has resulted in a sharp reduction in imports of edible oil. (The government still imports edible oil instead of the more economical oil seeds on the curious argument that oil seeds imports are against the interest of the oil seeds farmers). For the current oil year 1990-91, the accumulated results of the centrally sponsored National Oilseeds Development Project and Oil seeds Production Thrust Project and the four year old Technology Mission on oilseeds should improve oil seeds crop technology, improve processing and post harvest technology, and increase the oil content of both traditional and non traditional sources of oil so that the target set forth in Table IX of 175 lakh tonnes is achieved. Finally and as a consequence, the oil seeds sector is doing well on the export front, the major and expanding item being soya bean meal, castor oil and rape seed and groundnut

extraction. The international market is favourable for even larger exports which would in 1990-91 exceed Rs.650 crores compared to Rs.600 crores in 1989-90.

<u>Jute and Sugarcane</u> **<u>Jute</u>** production has been picking up from 1987-88 and is set at 92 lakh bales for the current year 1990-91, which with the very good monsoon in West Bengal and the Eastern states should be attained. The problem faced by the jute farmer is declining, demand because of the replacement of jute by synthetic material for packing and packaging. Now that the Jute Packaging Materials (compulsory usage) Act of 1987 is being effectively put into operation and given the record foodgrains bumper crop and the increased output of cement, the 1990-91 target can be attained. Here again, the jute farmer needs timely supply of certified seeds, plant protection equipment and training in the new jute technology which has been developed in the research laboratory and in development of retting tanks to increase the output of jute. With regard to the output of **<u>sugarcane</u>**, Table IX shows that it is increasing at near 5 per cent per annum. Behind the increased cane production, is the continuous increase in sugar cane acreage at about 3 per cent per annum. There are a number of issues raised in the sugar cane production area. First it is a heavily water intensive crop, and in all states the increase in sugar cane acreage has meant diverting increasing irrigation, resources to it, while coarse grains and pulses continue to be limited in yield due to their being produced without irrigation, and even paddy acreage is

being diverted to sugar cane. So the first question raised is whether there should be this continuing increase of this water guzzling crop in a water scarce economy like India's. Behind this question, is the annual increase in the demand for its product, sugar, which also needs restriction as far as its consumption is concerned, particularly by the five star hotels and other catering establishments, which are involved in bulk sugar purchases. A second question relates to the extent to which the sugarcane crop being a long duration crop, despite its irrigation availability, is dependent on the weather. High temperature stress during germination, early flowering due to the monsoon and its variability and deficiency of the south west and north east monsoons affect both yield per hectare and the recovery rate as was experienced in Uttar Pradesh and Punjab in the 1988-89 sugarcane season. Sugar research should address itself to these weather problems which may affect cane production also this year. A third question relates to sugarcane price. According to current practice, the union government fixes the Statutory Minimum Price (SMP) for sugarcane at the start of the sugar season (October-September). In 1989-90 sugar season the minimum price was revised twice from Rs.19-50 to Rs.20 per quintal in October 1988 and further to Rs.22 per quintal in October 1989. This is net the price paid to the cane grower. State governments fix what is called state advised price linked to a rate of recovery, which is raised year after year, and varies from state to state. it is not possible to have one all India sugarcane price, because the growing conditions and cost of growing and marketing the cane vary from state to state. Hence

the system of state advised prices is necessary, but to avoid the annual dislocation to the farmers, sugar mills and government authorities caused by it, there should be agreement on the main elements on the basis of which each state advised price is fixed. That would avoid the present adhocism and reduce, if not eliminate, the play of non technical forces in price fixation.

Plantation crops In tea output, whose quantities are set forth in table IX, the major problem is to meet domestic tea consumption which is growing at 10 grammes per capita annually, and which places tea consumption in 1990 at 510 million kg. This means 210 million kg will be available for exports. If tea output increases by 10 per cent per annum and tea consumption increases at 10 grams per capita per annum, then in the terminal year of the Eighth Plan, 1994-95, tea production will be 878 million kg, domestic consumption 650 million kg, leaving about the same as at present for exports at 226 million kg. There are certain positive and negative elements in this scenario. On the positive side, the crop is no longer, as in the case of coffee, dependent on the export market. Further with the entry of the Gulf countries and Latin America, the export market is being diversified, while still relying on the major tea importers - UK and USSR. The negative element is that no attempt has been successfully made to substitute the heavy and growing tea consumption by coffee consumption. The government's initiative this year in making tea production rather than tea exports the thrust area is a move in the right direction and to ensure this,

it has called for and obtained the annual production plans of 25 top tea producing companies, which are being monitored. It has also got the Tea Board to identify 125 sick tea estates, which are being taken up by the tea industry for rehabilitation. In this connection, the talk about nationalising the sick estates should be summarily and instantly repudiated, as that would be the way of disaster, as exemplified by the state run Assam Tea Corporation, the West Bengal Tea Development Corporation and the Tea Trading Corporation. Rather, the banks and BIFR and reformed legislation should take the responsibility for rehabilitating the sick estates. <u>Coffee</u> output in 1990-91 is likely to be double of that of 1989-90, as table I shows. This is the trend of expansion every alternate year in coffee output. The major problem in the coffee area is that domestic consumption is stagnant at 55000 to 65000 tonnes - 55560 tonnes in 1988-89, 64,328 tonnes in 1989-90 and an expected 65000 tonnes in 1990-91, leaving 1,60,000 tonnes for export, when India's export quota under the International Coffee Organisation, when it had quotas till 1988, was around 60,000 tonnes. Hence what is needed rather urgently this year is to expand the domestic consumption by atleast last year's 10,000 tonnes which will also relieve the pressure on the tea stocks. The International Coffee Agreement, of which India is a signatory has been extended to September 1991, without the quota clauses. The 1990-91 budget concessions to coffee growers, reducing their excise duty by 20-50 per cent depending on the variety and the rescheduling of their loan repayment should ensure some relief to coffee growers and help the attainment of the year's target. In the case of <u>Rubber</u>

against the production of 2.9 lakh tonnes in 1989-90, domestic consumption was 3.34 lakh tonnes, the difference being met by imports by STC (20,810 tonnes) and by rubber users (12194 tonnes). There is also a serious problem of the fair price fixed by government for this season and the market price which is 20 per cent higher and the STC release price which is 35 per cent higher. The government must revise the fair price upward. as it does not have the foreign exchange to import more. 80 per cent of the country's rubber is produced by small producers who have been called upon by the Rubber Board to bring additional areas under rubber production. The Board is also bringing additional hectares, particularly in non traditional areas, under rubber cultivation. All this is necessary but the only real and long term solution to closing the supply demand gap is through increased use of synthetic rubber, as is being done in other rubber using countries. The other plantation crop of cardamom whose production has declined sharply needs nursing back to the 1988-89 level of 42,000 tonnes. Similarly pepper also reports declining production to 40,000 tonnes, which this year, the Spices Board can and should raise to 60,000 tonnes. Cashew is doing well and here the Cashew Board needs to help the growers in processing the crop so that it can attain 3 lakh tonnes this year, 1990-91.

Allied Activities In regard to **Animal Husbandry**, the 1990-

and to enable a large section of the rural population to take to animal husbandry and dairy farming both to increase their incomes and nutritional status. There is a problem with milk production which is increasing at 2-3 per cent annually and has a target of over 54 million tonnes in 1990-91. Here the dairy infrastructure in many states is inadequate, so that the farmer is not able to sell his milk to the dairy. This should be rectified this year. Fisheries development is proceeding at a slow pace of an increase of 1.2 per cent per annum. Despite the long sea coast and the economic zone, marine fishing is still rudimentary in the use of trawlers. As for inland fisheries, there is in the last 12 years a stagnant production, which does not go along with the good monsoons that we have now. The 1990-91 south west monsoon should be used to increase inland fisheries sizably. Irrigation in 1990-91 should execute the proposals set forth in the last year's mid year review on not continuing with the traditional measure of irrigation potential and its realisation, but measure the number of wetting during the cropping season that the farmer has accepted.[22]

There is currently a discussion in the country on agriculture being given the same status as manufacturing industry. This is also part of the study being undertaken by the committees on agricultural policy (Sarad Joshi Committee) and agricultural development (Bhanu Pratap Singh) Committee. What is right and needed at long last is the recognition of the place of agriculture in the economy to which following CSO a weight of

36.4 per cent has been given as against a weight of 19.1 for the industry sector, in which manufactures carries 17. Under these conditions, the provision of all forms of infrastructure in the economy have been developed primarily for manufactures and only secondarily as an after thought for agriculture. Whether it be roads and transportation - both railways and motorised -, or power, or credit and its multifarious institutions. In all this manufactures have not only the pride of place, they have all been developed to help primarily the manufacturing industry. Now two things are needed, starting this year, the first year of the VIII Plan. One is to demystify the status of manufacturing industry in government, in academic circles and in the business world. The second is to start the process of giving agriculture the same infrastructural facilities as manufacturing. On these two issues, the recommendations of the Bhanu Pratap Singh Committee should be incorporated in the agricultural provisions of the Eighth Plan. They include: i) farming be given the formal status of an industry, if the bias against it is not removed, but if it is given the same facilities as manufacturing industry, it need not be given that formal status; as that might subject it to various regulatory procedures: ii) agriculture's growth rate be raised to 4.7 per cent to double its production in 15 years: iii) capital formation in agriculture should be raised to21.2 per cent to double its production: iv) its programme should include literacy education and improvement in the quality of rural schools: v) area specific programmes should be taken up by farmers in each block: vi) there should be one model small farm established in each village with a population of more than 500:

vi) the expenditure on major and medium irrigation works should be limited during the Plan in order to a)develop minor irrigation in Eastern India and b) desilt tanks to promote better storage and fish farming: vii) agricultural research and training should be increased and Krishi Vigyan Kendras should be established in each district by the end of the Plan: ix) there should be mechanisation of small farms to cut drudgery: x) there should be consolidation of holdings: xi) an alternative food security should be launched: xii) farm exports should be expanded rapidly and for this the agricultural ministry should set up a Farm Export Corporation: xiii) there should be special thrusts on brackish water, prawn farming, basumati rice and quality control for exports: and xiv) need based credit requirements in the farming sector should be set up. The Sharad Joshi Committee recommendations on agricultural policy are on similar lines, and has outlined the strategy on the basis of which the 4.7 per cent growth rate will be achieved.

We may now turn to a study of the manufactures in 1990-91.

Manufactures

The profile of manufacturing growth in the year ended March 1990 presents certain peculiar features when placed along side of the manufacturing growth registered in the previous year ending March 1989, as the table below shows:

Table XI

Quarter	General Index			Mining and Quarrying			Manufacturing			Electricity		
Weight	100.00			11.46			77.11			11.43		
Year	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90
April-June	11.2	12.7	2.4	5.7	6.1	4.6	12.5	14.2	-0.1	8.5	10.4	9.0
July-September	9.9	6.3	6.3	5.0	5.3	6.2	10.7	7.2	4	10	1.9	10.2
October-December	6.2	9.9	8.3	4.1	9.1	7.1	6.8	9.5	6	4.5	13.4	11.0
January-March	3.2	6.7	15.2	1.1	10.1	7.0	2.8	5.2	19	7.6	12.2	11.0
April-March	7.3	8.8	8.3	3.1	7.8	6.0	7.9	8.9	8.1	7.7	9.4	16.2

Source:CSO

The pecular feature of industrial growth for 1989-90 set forth in the above table is that industrial growth which in the first 2 quarters of the year was 4.3 per cent and for the first three quarters was 5.7 per cent, suddenly shot up in the last quarter to 15.2 per cent, recording an increase of a high 22 per cent for March 1990. The report on manufacturing growth is equally puzzling as it records -0.1 per cent in the first quarter, 4 per cent in the second quarter and 6 per cent in the third quarter followed by a jump to 13.9 per cent in January 1990. 13.3 per cent in February 1990 and a sharp 29 per cent in March, giving the quarter 19 per cent growth. This last quarter increases in 1989-90 of the industrial growth rate goes against the last quarter record of the previous year's, 1987-88 at a low 3.2 per cent being about 30 per cent of that of the first quarter, and 1988-89 at 6.7 per cent being a little above half of the first quarter. The sharp increase in manufacturing in the last quarter at 19 per cent and in the last month at 29 per cent needs some explanation, which as of now is not available. On the basis of the first quarter performance, the prospect for industrial growth in 1990-91 may be placed around 7-8 per cent and for manufacturing growth at 8 per cent.

The changes in industrial policy in 1988-89 involved the following:

- the list of industries for which no license is required was extended to 31 industries for Non MRTP/non FERA companies

- 72 industries were delicensed for MRTP/FERA companies for backward areas

- All industrial undertakings both MRTP/FERA and non MRTP/Non FERA manufacturing or seeking to manufacture automobile tyres and tubes have been delicensed

- limits on value of fixed assets for exemption from industrial licensing for non MRTP/non FERA companies were increased from Rs.5 crores to Rs.50 crores for projects located in backward areas and Rs.15 crores for other areas

- The negative list of industries which require compulsory licensing has been reduced from 78 industries to 26 industries

- The limit on requirements of imported raw materials/components has been increased from 15 per cent or Rs.75 lakhs which ever is less to 30 per cent of annual production

- The facilities of exemption from licensing announced in June 1988 have been extended to cover items under compulsory licensing but reserved for small scale sector, weaving units, telecom equipment, industrial control instrumentation system and computer peripherals

- The reendorsement of capacity with regard to Minimum Economic Scales of Operation has been increased from 72 to 108 industries

- The scheme of broad banding has been extended to the Glass Fibre and man made fibre industry

- The locational policy was relaxed for non polluting projects, involving investment in fixed assets upto Rs.5 crores

- 14 items so far reserved for the small scale sector have been dereserved

- Some detailed relaxing guidelines were issued for the sugar industry, for equipment manufacturers, for steel industry - cold rolled strips/sheets, for ferro nickel and fero silicon.

These measures delicensing and broadbanding certain industrial items are a continuation of the measures in 1984-85 set forth in the Mid Year Review 1985, in 1985-86 set forth in the Mid Year Review 1986-87, in 1986-87 set forth in the Mid Year Review 1987-88, the 1987-88 set forth in the Mid Year Review 1988-89 and in 1988-89 together with an evaluation of their effects set forth in the Mid Year Review for 1989-90[23]

In May, the present government announced some further facets of the industrial policy which has three broad divisions. The first is in relation to small industry, where the investment ceiling in plant and machinery for small scale units was raised from Rs.35 lakhs to Rs.60 lakhs, for ancillaries from Rs.45 lakhs to Rs.75 lakhs and for tiny units from Rs.2 lakhs to Rs.5 lakhs, with improved inflow of credit and other inputs to them. A new scheme of central investment subsidy to small scale units set up in rural and backward areas is to be announced. Additions are to be made to the 836 items currently reserved for the small sector. In these provisions, the genuine small scale units need to be safeguarded, as their average investment in plant and machinery does not exceed Rs.5 lakhs, so that there will be an increased tendency for large scale units to set up benami units with the larger investment to take advantage of the various concessions and facilities available to the small sector. As for the proposal to increase the number of industrial items reserved for the small sector, it is questioned from two opposing points of view. On the one hand, it is held that such reservation encourages uneconomic, high cost and low quality production, and has become a permanent crutch on which small units rely instead of graduating to higher levels of production. On the other hand, it is held that the number of reservation is misleading, because what was at the start of this part of the policy in 1967 classed as one item has since been split into 4 or 5 or 6 items, so that the industries reserved for the small sector are in reality a much smaller number - of say 100. The second broad division of

the May policy announcement relate to simplifications and delicensing which is a continuation of the past reforms and should be welcomed. Under this, there is a sharp reduction of procedures, returns, inspections etc from which the small entrepreneurs suffers. Technology approvals are to be given within 30 days of presentation to the secretariat of Industrial Approvals. All new units upto an investment of Rs.25 crores in fixed assets in non backward areas and Rs.75 crores in backward areas are exempted from licensing. The third broad division refers to large units where 4 important changes have been made: a) for import of capital goods, the entrepreneur is allowed to import upto a landed value of 30 per cent of plant and machinery of the value of the unit. Despite the problem of the relation rather than the absolute protection levels being decisive as in relation to the much higher level of protection of petro chemicals and electronics, this provision needs to be examined to see how it will affect the domestic capital goods industry as the 1987-88 budget did[24] and being opposed both by the Planning Commission and the Economic Advisory Council forced the government in the third quarter of that year to withdraw the concessional customs duty on imports on capital goods and machinery.[25] For this year, the warning bells of capital goods imports flooding into the country and hurting the domestic capital goods industry has already sounded, with the 500 per cent jump of such imports in 1989-90 (Rs.1637 crores from Rs.37 crores in the previous year which itself was a doubling over that of 1987-88). This is resulting in causing and increasing the surplus capacity in the capital goods industry as BHEL keeps

repeatedly reporting. b) for imports of raw materials and components, imports are permitted upto a landed value of 30 per cent of exfactory value of annual production, excluding excise duty and OGL imports. The question on this provision is that, with the country's foreign exchange reserves down to a level of being able to meet the cost of only 5 weeks of imports, whether the reserves can stand the call which will be made on it by the provision: c) foreign collaboration agreements can be signed by enterpreneurs without government clearance, provided the royalty payment does not exceed 5 per cent on its domestic sales or 8 per cent of its exports. This freedom to conclude foreign collaboration agreements without conditions on inhouse research facilities raises the question of the further multiplication of the present trend towards repetitious, routine and outdated technology flowing further into the country: d) foreign investment upto 40 per cent of equity will be allowed automatically. In a later clarification, it has been stated that such free foreign investments will not be allowed in consumer goods and consumer durables industry which is what the foreign multinationals are interested in, for that is where large profits lie: e) units in EPZs and EOUs are delicensed upto investment limit of Rs.75 crores: later it was announced that only projects with investment above Rs.200 crores will need clearance by the Cabinet Committee on Economic Affairs, those under that limit being cleared by the industry ministry: such investments are exempted from the convertibility clause applicable to financing by public sector financial institutions. There are thus plus and

minus factors in this third group of measures as applied to large industry, and it is only as their detailed notifications become available and their execution takes effect from the second half of the year that judgements can be made about the effects of these policy changes.

One of the issues that needs to be faced this year at the start of the Eighth Five Year Plan is the extent to which our industrial policy and development will be promoting self reliance or alternatively an outward orientation. Self reliance has been one of the principal planning goals from the start and in the industrial area this was interpreted as involving import substituting industrialisation in which the public sector state enterprise plays the leading role. This has involved substituting domestic production for imports, starting with consumer goods, moving on to intermediates, and to capital goods machinery - heavy and light. This has called for state intervention on a broad front, regulating all economic activity, administered pricing and other efforts to guide market forces, quantitative (import) trade restrictions and control of banking and financial institutions. Even the modification from the Fifth Plan when "efficient" import substitution was talked of and later made part of industrial policy did not make any basic change in the parameters of the import substituting industrialisation. Hence there is the view that this form of self reliance, - of import substituting industrialisation - has been carried too far, so that the goods produced, consumer goods, intermediates, and capital goods, within the country are both sub standard in

relation to international standards and costly, and that it is now necessary to open up the economy so that there can be more imports of goods of quality and at lower prices. This outward orientation strongly urged by the World Bank which holds up certain countries as Models, will thus make our goods also competititve both in quality and price and might place us at a less disadvantageous position in our trade relations and balance of payments position.[26] This is a continuing debate and the industrial policy reform and changes are moving us in the direction of opening our economy, while still relying strongly on import substituting industrialisation. This question needs to be faced more overtly this year and the papers being circulated by the Prime Minister's office raise all the issues involved.

This issue of self reliance versus outward orientation is also related to the import intensity of the economy. In the context of the continuing trade deficit and the balance of payments pressures that have been built up over the 80s in the economy to be analysed later, the question of import intensity of the manufacturing industry becomes important. The import intensity issues applies to manufactures intended both for the domestic market and for exports. On manufactures meant to meet domestic market demand, one of the distinguishing characteristics of the consumer durables fabricated to meet middle class elite consumption demand is its import intensity. In absolute terms, the import content of such goods varies from 40 to 80 per cent: again compared to wage goods or import substituting intermediates

or machinery, the import content of consumer durables is some 5 to 50 times more: similarly the import intensity of our exports increased by around 50 per cent in the 80s - that is from 21.8 per cent in 1980-81 to 31.5 per cent in 1987-88, the latest year for which import figures are available, according to the Reserve Bank of India's computation.[27] There is the view that the increase in our trade deficit is due to the liberal import policy (which the 3 year Import-Export policy announced this year does nothing to counter) - liberal in the wrong direction in that it is used to produce luxury goods. There is also, on the other hand, the view that 65 per cent of the trade deficit is due to the depreciation of the Rupee, 25 per cent to the necessary import content of our exports, and only 10 per cent due to the liberal import policy. This question of import intensity of our manufactures needs to be booked into in some depth this year from a pragmatic point of view, as the Comptroller and Auditor General[28] calls attention to the disturbing fact that even the Export Processing Zones with their free import facilities have contributed only a minuscule 2 to 2.7 per cent to aggregate exports between 1982-83 and 1987-88, the net outflow on their imports from hard currency areas being Rs.597.68 crores against the net inflow on their exports to such areas of Rs.9.50 crores.

A related issue with regard to the industrial sector is its capital intensity. In a capital short economy like ours, the question of capital intensity of our manufactures assumes importance. This can be looked at from two points of view, one is substantive and the other methodological. On the substantive

side, as manufacturers particularly from the latter half of the 80s depend on market signals, the production structure becomes heavily capital intensive. There are some industrial areas like power, fertilisers, steel, non ferrous metals, crude oil and petro chemicals which are by nature heavily capital intensive and is one reason why they have, most of them, remained in the public sector. But consumer durables and intermediates which are increasingly being produced in response to market demand have become capital guzzling as well as non employment generating. This is an area calling for monitoring and continued controls. The methodological issue relates to the means of measuring the capital intensity of our manufactures. So far, we have used the Incremental Capital Output Ratio (ICOR) as the means of measuring the capital intensity of our industry and of the different segments of the manufacturing industry because we had no data on capital stocks. But now with the abundant data being generated by the Annual Survey of Industry, the rounds of the National Sample Survey, CSO's estimate of capital stock as on March 31, 1981 and the New National Account Statistics series, it is possible to move from the use of the Incremental Capital Output Ratio (ICOR) to capital output ratios. ICOR measures the use and the return on the use of capital at the margin, which is not a measure of capital intensity of the manufacturing sector, for which the use of the entire capital stock should be taken into account. In so using total net capital stock, the consumption of fixed capital by various industries should be carefully computed, to avoid its underestimation, as was the case in the old series

of National Account Statistics, as pointed out by the RBI (KN Raj)[29] working group in reference to capital consumption. The major causal factor for this under estimation is the public sector enterprises which have not made sufficient provision for depreciation on their capital. On this basis, the capital output ratio over the last 2 decades for which data is available can be worked out, of which in the interest of brevity only the results of the last 5 years are presented in the table below.

Table XII

Year	Net capital Stock (1980-81 prices) (After depreciation)(Rs.crores)	Net Domestic Product at Factor Cost (1980-81)	Capital Output Ratio (COR)	Incremental Capital Output ratio (ICOR)
1983-84	39002	130348	2.89	3.75
1984-85	408009	135149	2.88	3.34
1985-86	430416	141848	2.93	4.35
1986-87	45335	147119	2.98	4.46
1987-88	475160	152017	2.99	4.70

Source:National Account Statistics, February 1981

The table shows that a) the Capital Output Ratio is more stable (being 2 to 3 over the 2 decades from 1970) than the Incremental Capital Output Ratio which has both moved faster and fluctuated more widely (being -15.36 in 1971-72, 1.56 in 1974-75 and 21.91 in 1970-71). Thus while the aggregate capital output ratio of the economy seems to be evenly spread, in actual fact the ratio has steadily and persistently been moving upwards towards 3 in

the 80s, indicating the growing capital intensity of the economy, - which in part is due to underestimation of capacity, as well as the effect of large investments in heavy industry.

<u>Rural Industrialisation</u> If the present heavy dependence of the work force on agriculture is to be reduced, rural industrialisation and industrialisation of backward areas need to be promoted actively in 1990-91 and during the Eighth Plan, Rural Industrialisation is not only the location of industries in the rural areas: that by itself does not lead to the employment and infrastructural benefits of industrialisation in the rural areas, as may be seen in the fact that a few kilometers outside the large steel mills in Bokaro or Bhilai, the large mechanical industry in Ranchi are to be found the poverty stricken and under developed country side, or in the expenditure by TISCO of an annual Rs.50 crores for development of its countryside. Rather rural industrialisation to be initiated this year refers to the use of rural resources and produce to develop small and medium industries on the spot. The Approach Paper outlines three subsets of strategies to ensure the spread of industry to rural and backward areas. The Economic Advisory Council while pointing to the possibility that small industry is not employment or non import intensive refers to the possibility of such industries producing articles for elite consumption or exports. While this view and analysis may be (and has been) questioned on several grounds, it points to the need for the fuller use of rural resources, agro, animal, fishing etc, as a means of developing

industries in the rural area which to date has not made much progress. The All India Industry Ministers Conference in July 1989 has declared that Rural industrialisation should form the main thrust of our strategy for industrialisation and employment in the Eighth Plan. Now these solemn words and promises should be translated into action. A similar push is needed for the industrialisation of backward areas. inspite of the central investment subsidy for backward areas amounting over to Rs.150 crores per annum, which has been revived in the industrial policy changes referred to earlier, and in spite of the transport subsidy on industrial raw materials and output, the letters of intent and industrial licenses issued for backward areas have not increased as table 4.5 of the Economic Survey for 1989-90 shows. For the development of industrialisation of backward areas, there is need for stepped up investment in 1990-91 in rural infrastructure.

<u>Small Scale Industries</u> Small scale units of all types number over 17 lakh at March 31 1989. The second all India census of small scale units which will update information on the registered small scale sector is now underway. For the data on units in unregistered, unorganised and informal sector, there has to be a collation of data from NSS rounds, the latest being the 43rd rounds, RBIs All India Debt and Investment Survey 1980-81, and NCAER studies. As at March 1989, the organised small sector employs 120 lakh persons, produces Rs.82.400 crores of goods, exports over Rs.4535 crores (near 30 per cent of total exports).

To develop the sector, a number of initiatives are under way including the Small Industries Development Fund, the National Equity Fund and more recently the Small Industries Development Bank. But the Approach Paper calls attention to the need to review the operations aimed at promoting small industry in saying "the numerous states interventions, reservations, fiscal discriminations favouring small industry, subsidies, promotional measures - ostensibly designed to ensure a protected sphere, have been to say the least half hearted". While endorsing the policy of protecting small industry as that has resulted in faster expansion of employment than would have occurred if only large industry occupied the field, it points to the distortions caused by the benefits being cornered by relatively modern, more capital and less labour intensive units in, for example, cloth, printing of fabrics, footwear and food processing. The 1990-91 programme set forth for small industry and the industrial policy changes referred to earlier must have built in safeguards against these dangers. As the Approach Paper points out, the first subset in this area of small industry particularly in rural areas refer to the strategy to be followed in regard to village and household enterprises - khadi and village industries, handlooms, handicrafts, sericulture and coir. This sector produced Rs.1700 crores of goods and employed 43 lakh persons. The coir industry produced 2,23,500 tonnes in 1989-90 and earned Rs.37 crores in exports. It employs 17 lakh persons. Sericulture is growing slowly and in 1989-90 produced over 11000 tonnes of raw silk, exported Rs.413 crores and employed 62.95 lakh persons. It

should be noted that the above impressive employment figures in village and household industries may and do include a great deal of partial and part time employment, whose dimensions depend on the labour productivity and incomes earned in them. Information on these facets is available in scattered fragments and need to be brought together and evaluated to further the gainful employment opportunities in this area. The thrust in the small sector includes the units registered under SSI and the khadi and village industries commission, with special attention to the problem of growing sickness in the sector.

<u>Industrial Sickness</u> As just stated, the increasing incidence of sickness in the small industry sector is a disturbing fact which goes against all the policy pronouncements on the importance of the small scale sector. The Reserve Bank reports as at December 1987 that out of 22.27 lakh SSI working units with a total bank credit of Rs.10,729 crores, 2.04 lakh units were identified as sick,owing banks Rs.1797 crores. This is a high rate of sickness of near 10 per cent in the small sector, of which only 12,484 units were considered potentially viable,and of these only 60 per cent have been put under nursing. Sickness in the large and medium sector is even more serious in terms of credit locked up in them at Rs.4459.09 crores among 1839 units. Among this group, banks and the Board for Industrial Financial Reconstruction have identified 613 units as viable with a credit over due of Rs.1838.53 crores. That is about a third of the large and medium units are regarded as viable with 40 per

cent of the total locked up credit owing from them. The banks have identified many causes for this spreading sickness. Where the sickness is due to unreal feasibility reports in starting the unit, delays in receipt of machinery and raw materials, or fluctuations in the market, and when the capital of the unit is not completely eroded (beyond 50 per cent), it is regarded as viable and capable of being rehabilitated. The major cause of sickness in other units both in the large and small sector is the looting of the company's assets and capital by the management. In this case, the units should not be called sick, but as those to be liquidated, and the management should be prosecuted under the criminal laws of the country. Certainly there should not be either take over (nationalisation) of sick units by the state or the pumping in of funds from banks into unviable units - which has been the pattern till now. Could 1990-91 set a new pattern of corrective action (and not only rehabilitative ones) towards unviable sick units. And as the process of deregulation and delicensing expands, the consequence of such a process should be accepted by government and labour - and that is, the liquidation in the market of unviable and bankrupt companies.

<u>Public Sector Enterprises</u> The public sector enterprises continue to cause problems. As noted earlier, they are an essential part of the country's planned economic development, first and foremost in the infrastructural field - of railways, shipping, steel, heavy machine goods, crude, electricity etc. On the one hand the Bureau of Public Enterprises in its 1988-89

survey presents certain aggregates which seem encouraging - of a record net profit of Rs.2981 crores, of increase in investments in them of Rs.14,441 crores, of increase in gross sales, gross margin, gross profit, net profit, value addition and internal resources generation at Rs.8893.93 crores. In the most recent survey for April-September 1989, the Bureau reports that 200 non petroleum sector public enterprises contributed Rs.417 crores to the overall public sector enterprises profits of Rs.2490 crores, which the Economic Survey points out is an improvement over the previous year's loss. Against this should be set the fact that the ratio of net profit to capital employed that this represents is less than 1 per cent. The other side of the picture is presented by the 1989 report of the Comptroller and Auditor General which states that 90 public sector companies employing Rs.13,213.74 crores as capital incurred Rs.1524.09 crores as losses in 1986-87, that 56 of them had accumulated losses at Rs.4712.98 crores which exceeded their paid up capital of Rs.3065.79 crores by 219 per cent. This contradictory story is repeated year after year, because the aggregative presentation in Vol I of the Bureau of Public Enterprises Survey mixes the perennially profit making units (mainly the oil sector) with the perenially or recently loss making units. In the latter category of the 1988-89 loss making units pointed out by the Comptroller and Auditor General are Hindustan Steel (Rs.70.33 crores), Hindustan Paper (Rs.86.24 crores), Hindustan Fertilisers (Rs. 156.38 crores), IISCO (Rs.119.50 crores), Delhi Transport (Rs.98.99 crores). What is now needed is for a clear policy and decision starting this year in 1990-91 on the following lines.

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i) the essential infrastructure public sector - units, essential for the country's development should be fully supported, adequately financed and given the normal managerial autonomy; ii) the state - both in the union and in the states - should pull out of perennially loss making units, selling them or allowing them to merge with units in the private sector; iii) private sector units which were nationalised, apart from coal and banking which are part of the basic infrastructure, should either be turned over to the owners or sold; iv)the non essential units and activities like hotels, modern bread, dairy supplies and Delhi transport should be turned over to the private sector.. In this connection, I have established a list of some one hundred enterprises which are currently in the union public sector enterprises list surveyed annually[30] by Bureau to which I would call attention.

<u>Private Sector</u> Parallely there are 3 developments in the private corporate sector that will affect its functioning in 1990-91. First the surveys of the private corporate sector's record for 1988-89 and/or 1989-90 by RBI, IDBI, CMIE, Economic Times Research Bureau state that in 1988-89 there was a recovery from the slackening in the previous two years - in terms of increased sales, value added, profit margin, gross profits and net profits. But the prospects for 1989-90 whose audited accounts are just coming in appear somewhat doubtful as there was an industrial slow down by April-November 1989, noted earlier when analysing the industrial growth for 1989-90. This

industrial slowdown in the first 8 months is due to deceleration in manufactures, demand constraints and shortage of some key raw materials, particularly non ferrous metals. The Economic Survey points to the saturation of the consumer durables markets, (involving the middle class elite demand for the products have by and large been met to the point of satiation) resulting in a) production decline of TV (-20 per cent in black and white sets and -12 per cent in colour sets), radio receivers (-45 per cent), sewing machines (-33 per cent), electric fans (-32 per cent), b) slowing of growth in bicycles from 28.1 per cent in 1988-89 to 4.2 per cent in April-December 1989, refrigerators from 39 per cent to 6.2 per cent, wrist watches from 26 per cent to 7.7 per cent, and c) sharp reduction in the growth rate of consumer durables from 22.11 per cent in 1988-89 to 0.82 per cent in the first 9 months of 1988-89. Was this slow down reversed in the last quarter as the CSO growth rates indicate? Thus the spectacular of rate increase in manufacturing activity in the last quarter of 1989-90 of which the details are not yet available has overcome the slow down by IDBI, ICICI and ICFI in both approvals and disbursements during April-September 1989 and may also account for the simultaneous 80 per cent increase in capital issues in April-February 1989-90 over that of the previous year. The private corporate sector in 1990-91 is forecast to resume its uptrend in sales, value addition and profits. The second development is the forecast of corporate investment and capital floatations in 1990-91. Using the C.Rangarajan methodology developed in 1970[31], the Reserve Bank forecasts that corporate investment in 1990 will be Rs.14000

crores (which is a 28 per cent increase over the 1989 corporate investment) comprising Rs.10663 crores in capital expenditures on projects sanctioned upto 1989, Rs.500 crores under bill Rediscounting Scheme and Technical Development Fund scheme sanctions and Rs.3000 crores as capital expenditure on projects sanctioned in 1990.[32] This also corresponds with the CMIE forecast of Rs.8000 crores capital floatations by the corporate sector in 1990-91 which may be an under estimate as at June 1990 total capital floatation were already Rs.7800 crores by 292 companies.[33] RBI estimates the cost of 960 projects in 1989 in which IDBI, ICICI, IFCI were involved at Rs.42050 crores compared to Rs,10,426 crores in 1988. The third development is the effect of the operations of the large enterprises in the private sector in regard to exports and imports, a matter which will again be dealt with later under the section on Balance of Payments and Foreign Trade. RBI data arising from its surveys on public and private limited companies referred to earlier and other Mid Year Reviews and on foreign collaborations analysed in the 1988-89 review[34] show that since the 80s, the large firms are incurring more foreign exchange expenditures than earning them. The latest year for which such data is available is 1985-86, when foreign exchange earnings by the private corporate sector (medium and large enterprise) were Rs.1976 crores while their foreign exchange expenditures was near double of that at Rs.3421 crores. This means that there should be one major aim for the corporate sector in 1990-91 and the 90s generally, namely a decrease in the net outgo on foreign exchange. Here, this year three large

industrial private corporate enterprises groups - those engaged in engineering (comprising motor vehicles, electric machines, and other machinery), chemicals including chemical fertilisers, cotton textiles - and one medium sector group, gems and jewellery, need to be reined in their imports as they are the ones where there is an excessive foreign exchange outgo.[35] This involves not only cutting back on these imports, which has begun to be effected in the July notification cutting back from the import bill, Rs.1000 crores in free foreign exchange, but also reviewing the current foreign collaboration agreements and provisions for foreign investments, on which the changes in the industrialisation policy introduced this year make generous provisions, including the so called ~Foreign Aid' panorama, to see how this turn around of the private corporate sector can this year be an earner rather than spender of foreign exchange.

Against this general background of this sector of the manufacturing industry, the problem and prospects of some individual industries may be passed in Review.

Capital goods and machine tools

Capital goods both cover a wide range of engineering equipment and machine tools and are averaging currently an annual 9 per cent growth rate.

Mining machinery for both open cast and under ground coal mining produced by 4 public sector enterprises and 32 private sector units registered with DGTD face the problem of the increased coal production needed by 2001. For this, this industry has the necessary capacity, but will need in this Plan the technological modernisation and upgrading of the machinery that it will produce to ensure the higher coal production and productivity.

Metallurgical machinery involving its manufacture including steel plant equipment is expanding and faces a special challenge from this year in light of the July decision on mini steel plants which allows a)the private sector to play a larger role, b) the secondary steel producers to increase their output capacity to 1 million tonnes (against the present ceiling of 2.5 lakh tonnes), and c) this secondary sector also to manufacture steel by using either electric arc furnaces (which is the present provision) or blast furnaces. The reason for this decision is that the demand for steel will increase from the present 14.80 million tonnes to 22 million tonnes by the end of the Eighth plan, while the production of the integrated steel plants of SAIL and TISCO under conditions of full capacity use including that of the Vishakapatnam plant will still involve a gap of 5 million tonnes, which the doubling of the private sector existing and new units can meet. This process should start in 1990-91. For this, there are two conditions. First, the design engineering and consultancy base for mini steel plants including rolling mills

and the technology of blast furnace, slag granulation and auxiliary equipment for integrated steel plants should be developed. Second the present shortage of power which restricts capacity use of mini steel plants to 50 per cent should be ended. Then the Rs.6000 crores of foreign exchange outgo in 1994-95 can be prevented or sharply reduced. Whether all this will restore some degree of resilience to the metal based engineering industries against the chemical industries is, however, doubtful.

Paper and Pulp and Printing machinery The problem with the paper and pulp machinery industry is that against a capacity of Rs.52 crores for the past two years, it has been producing Rs.28-30 crores of machinery, because of the slump in the paper and pulp industry. In 1990-91, the industry is expected to meet orders for modification and modernisation of the paper and pulp plants and some additional orders for complete paper plants. The problem that the industry faces is the rapidly rising cost per annum tonne of an integrated paper and pulp mill from Rs.3000 in the 60s to Rs.9000 in the 70s onto Rs.40,000 in the 1988-89 due to a)dependence on foreign technology, so that Indian manufactures, except for finishing equipment, are assembly plants under foreign collaboration, b) the falling value of the rupee and c) the near monopoly position of the Hindustan Paper Corporation (HPC). The short term solution is to help expand the fabricating capacity of the private units which will increase the demand for complete paper and pulp plants. In regard to the printing machinery industry, which is in its infancy, letter and

gravure printing press and single colour offset printing machinery are being produced internally. The printing industry will soon change rather drastically as the demand for printing machinery through web offset printing is expanding. As HPC sheds its monopoly, and newsprint mills of Mysore, Tamil Nadu Newsprint and Paper, and the UP project are copied and multiplied based on fuel - exchange bagasse, the order for machinery should expand from 1990-91.

Cement Machinery is meeting the increasing demand for dry process machinery and precalcination technology for capacity of 600 to 4000 tpu. While the installed capacity of the industry is Rs.150 crores, the 1989-90 production of cement machinery was only Rs.70 crores. The outlook for the industry in 1990-91 is not bright because its product, cement, is facing a surplus both in regard to domestic demand and export possibilities. The government wants the cement industry to increase its capacity from 60 million tonnes to 85 million tonnes during the Eighth Plan to meet the demand increase from 49 to 78 million tonnes. If even a part of this expansion takes place, the cement machinery industry will revive. But there is no incentive for entrepreneurs to invest in cement production plants because as studies of the Reserve Bank and the Industrial Credit and Investment Corporation of India show the post tax return on net worth of the industry has become negative. There is need for the cement plant machinery in 1990-91 to concentrate on meeting the machinery demands of the plants as they switch from the wet to dry process, and develop inhouse R&D facilities, in place of

their dependence on foreign collaboration. There are also possibilities of export of cement plants and the execution of turn key projects in the gulf countries, Bangladesh and Nepal.

<u>Heavy Electric Industry</u> This industry has a comprehensive coverage of producing equipment and machinery for generation, transmission, distribution and utilisation of electric power. The industry is equipped to cover the entire domestic equipment requirements. It has capacity for the manufacture and supply of 4500 MW of thermal and 1300 MW of hydro power generating equipment per annum. The industry having established the design and manufacturing capacity for 500 MW sets is moving into manufacturing 500 MW nuclear power sets and 150 MW gas based power station sets. Recent policy changes enabled MRTP and FERA companies to enter the scheme of broad categorisation of equipment, conforming to the minimum economic size scheme. The problem faced by the heavy equipment manufacturers is, because of the resource crunch faced by the government, it (the government) is providing for developing 38,000 MW additional capacity from the indigenous machinery industry and relying on foreign 'aid' for the other 10,000 MW that is needed during the Eighth Plan. And Japan, UK, France and every one of those offering to 'aid' the setting up of electricity stations insists on importing generating sets from their own countries. So indigenous heavy electric plants report a poor order book position even for 1990-91 and certainly for the remaining years of the Eighth Plan. There is here probably another case of trade off between ensuring

of the full capacity needed during the Plan and of the full use of the created capacity.

<u>Machine tools Industry</u> Machine tools are the main engineering sector instrumentality. Engineering's increasing reliance on CNC tools is leading to both increase in capacity for its manufacture within the country and reduction of its import, which is still the main source of supply, along with increase in R&D on laser machinery, robotics and CAD/CAM techniques and broad banding and delicensing which cover also MRTP & FERA companies. As a result, the target set for 1990-91 in machine tools is a rate of growth of 14 per cent and an increase in production from Rs.400 crores in 1989-90 to Rs.625 crores in 1990-91. Machine tools are included in the 1987 Technology Upgradation Scheme (TUS), which allows the concessional import duty of 40 per cent for Machine tools which go in for upgradation. In near 3 years only 23 companies with a sanction of Rs.183 crores from IDBI have participated in TUS due to the slow and piecemeal form of modernisation, its structuration of being limited to a few segments of the capital goods industry and the lack of response to the `fast track' facility. If however the capital goods industry's modernisation is both supply led and demand induced, which involves giving special consideration to the needs of the small sale industry where over two thirds of all machine tools are installed, then machine tools will be a growing area and the Eighth Plan will see a doubling of the volume of the output and increase in the CNC part.

Automotive Industry The industry contains two parts. One is the priority sector comprising: a) the agricultural tractor industry which is near its capacity utilisation, the licensed capacity being 1.25 lakh numbers and production in 1989-90 1.2 lakh. For 1990-91 there should be an increase in installed capacity, particularly of the small 25 HP tractor, which can meet the needs of the medium and small farmer. The increase in licensed capacity need not be through establishing new units, but operating on the basis of the prescribed Minimum Economic Size by increasing the capacity of the existing units: b) commercial vehicles which are of 3 varieties light, medium and heavy. This is an essential infrastructure for both agriculture and manufacturing industry, and against an installed capacity of 2.7 lakh vehicles 1.30 lakhs were produced in 1989-90. There should be further expansion of this group, particularly of the medium and heavy classes in response to the growth of the economy. One matter which needs attention is adequate servicing of this group of vehicles, as in their present use or poorly serviced condition, they are wasteful of fuel and a source of pollution every where, particularly in the cities where the government established norms incorporated in the Central Motor Vehicle Rules 1989 are systematically and universally violated and: c) the two/three wheelers in the 4 ranges with a licensed capacity of 50 lakh numbers and a production of 17.50 lakh in 1989-90 expected to increase in 1990-91 to 19 lakh numbers. Here the problem is to improve the noise and pollution controls of the two wheelers and three wheelers and regulate more strictly their conformity to

the traffic regulations. There is also the important sector manufacturing auto ancillaries in which the country ought to be self reliant but for some of the collaboration agreements where imports of ancillaries from the collaborating country is made a condition of the agreement. As this relates mainly to the passenger car group which will be referred to presently and which is not a priority area, such collaboration arrangements should require government approval. Another important area is that of diesel engines used in tractors, agricultural machines, generating sets, ocean going vessels, commercial vehicles locomotives etc. Their production which is 2.55 lakh numbers in 1989-90 should be rapidly increased, so that all automotive units are obliged to use them. To start with, in 1990-91 2.75 lakh numbers should be produced. There is then left the passenger car section which has an installed capacity of 2.16 lakh numbers and which produced 1.8 lakh numbers in 1989 (of which Maruti vehicles were 1.05 lakhs). There are several questions on this passenger vehicle sector. First this unplanned increase in the capacity and production of these vehicles which jumped from 50,000 - 60,000 in the 70s to double that number today is fuel inefficient and wasteful in use. At a time when the government is trying to restrict the use of petrol because of its foreign exchange cost, (the short term petrol shortage caused by the Gulf crisis will it is hoped soon pass) this proliferation of passenger cars does not make sense. Second most passenger cars on the road are occupied by a chauffer and one passenger (unless it be a government vehicle of a minister where the security escort fills up the

car). This wasteful use of this transport should be contrasted with the public transport system which is overcrowded and badly planned and managed. What is needed is more buses properly regulated and run by private or public transport service and some limit on passenger car production, which is being increased by the new Maruti 1000CC. Finally there is a contrast between the less than one per cent of the population which pays income tax and the 5 per cent of the population who own or use passenger cars. Where do these people get the money from for their cars, when they are outside the Income Tax net?

Chemicals and Fertilisers, Drugs and pharmaceuticals
Chemical and chemical products at the 2 digit level expanded rapidly in the Seventh Plan, registering a growth of 15 per cent in 1989-90 and stated to increase by 18 per cent in 1990-91. The question is raised whether this run away growth of the chemicals is holding back the development of metal based industry which is not only on a lower growth path but also on decelerating one. In fertilisers, the years 1985 to 1988 supply glut has been succeeded by a year of shortages in 1989-90, when production declined by 4 per cent, consumption increased by 12-5 per cent and imports increased by 95 per cent. The main cause for deceleration was in the production of phosphatic fertilisers which declined by 20 per cent. On top of this, capacity use declined in 1989-90 due largely to out dated phosphatic fertiliser plants, which are the public sector enterprises of Fertiliser Corporation of India and Hindustan Fertiliser. it is necessary to update the machinery of those plants, to improve the

forecasting of the demand and supply situation, and plan production units to cut imports which are heavy in terms of foreign exchange outgo. For 1990-91 indigenous production is targeted at 9.7 million tonnes but as consumption is forecast at 12.8 million tonnes, imports are planned for 3 million tonnes. Steps should be taken to eliminate imports after this year, 1990-91, through a) some of the plants which have been on the planning board from the mid 80s coming onstream in 1991-92, b) setting up the 3 ammonia/urea plants recommended by the Planning Commission and c) a more careful monitoring of fertiliser use by farmers where the large consumption in dry areas raises several questions.

In Drugs and Pharmaceuticals bulk drugs recorded an increase of 11 per cent in value terms in 1989-90, while formulations grew at a lower level of 7 per cent. This industry is also a major exporter and has registered last year an increase of over 61 per cent in its exports. It seemed all set to continue this increased domestic production and export in 1990-91 under the 1987 Drugs (Price Control) Order which reduced the number of drugs under price control and which has led to the rather curious statment in the Department's Annual Report "that further relaxation of price control will be made possible with the ultimate aim of complete decontrol of prices, so that government will retain only the power to impose control in respect of those products where it is considered necessary on a selective basis".[36] This may have been based on the new government's

election pledge to review the 1986 drug policy in view of the conflict between the manufacturers and government on drug prices which the manufacturers want raised to meet what they term as the escalating input costs, while government wants prices maintained at present levels if not at lower ones. The industry is also agitating over the question of its profits which it says are only 5.6 per cent against the level of 8 to 13 per cent permitted by the 1987 Drug Price Control Order. Per contra, in March 1990 the government brought 21 bulk drugs under price control (category II of DPCO) to both keep their prices under control and stimulate domestic production. The Rs.3000 crore industry is up in arms against this decision and is using all means to counter and fight it. The government's action stems from its desire to ensure reasonable prices of the 21 bulk drugs which are allowed to be freely imported along with the fact that there is no dearth of formulating capacity. The industry wants no price control, but rationalisation of the duty structure and an assured return on investment. In this context, the Report of the department quoted above makes no sense, unless it is a forecast of repeating the December 1986 debacle giving in wholly to the demands of the drugs and pharmaceuticals industry.

<u>Leather and cotton textiles</u> <u>The Leather Industry</u> is to the extent of 85 to 95 per cent in the small scale sector, so that non SSI units can enter this field only with an export obligation of 75 per cent. The leather industry has emerged as a major export industry with the terminal year of the Seventh Plan (1989-90) registering over Rs.2000 crores in exports and the export

target for the current year 1990-91 set at Rs.2700 crores (which with the 40 per cent - increase in April September 1990 is being realised), for the eighth plan at Rs.5000 crores and that for 2000 at Rs.10,000 crores. The industry is functioning and its targets for 1990-91 and the Eighth Plan raise a number of issues. One serious problem is that the 1990-91 and Eighth Plan targets can only be achieved by dereserving leather and leather products from the small sector and opening it to large enterprises with the 75 per cent export obligation which is now under way in regard to shoes and leather garments. A second problem is the proposal to delicense the industry which will severely limit the functioning and future of the small scale units which are its major constituents. A third issue is the growing import of hides and skins to overcome the constraint in its supply and to add to the raw material available for the large scale units. In addition to the import of the raw hides from Africa and Latin America, there is a ban on export of finished leather along with improved domestic collection of hides and skins. A fourth problem is that India is fast expanding leather products production, replacing Europe where the high labour cost of the industry and the difficulty of the industry conforming to their anti pollution legislation is leading to the leather industry being closed down in the industrial countries. This means that the problem of pollution of land, water sources and even the air in our country is increasing rapidly, and already the areas surrounding the industry have had to give up all forms of farming and the underground water has ceased to be potable. In spite of

the statement in the Department's annual report that central assistance is provided to state governments for establishment of common effluent treatment plants, after 5 years, the first plant is yet to start in the state (like Tamil Nadu, UP), where pollution is spreading unchecked past. In the textile industry a small (3 per cent) increase in production of the mill sector in 1988-89 does not also or modify the fact that the share of the mill sector is continuously declining, while that of the handloom sector is increasing. The largest increase in cloth production is in the decentralised sector (handlooms and powerlooms), with power loom producing 55 per cent of total cloth production. While therefore most of cloth production is in the decentralised sector, the organised mill sector is almost wholly responsible for the production of cotton and blended yarn. A SIMA study forecast that organised mills as producers of cloth will go out of existence by the turn of the century, with the power loom sector aided by handlooms taking over all production of fabrics . One major reason for this is the failure of the organised mills sector to modernise, being involved in using outdated or inapprorpriate techniques and technologies (as a result of their foreign collaboration agreements). Second through the low cost textile machinery analysed earlier provided the mills with capital saving possibilities, the low purchasing power of the people and the efficient raw cotton producing sector which made the switch to synthetics costly in price terms has made the operation of the mills increasingly uneconomic. This may also explain why the textile sector has largest incidence of sickness in the manufacturing sector. In 1990-91, the heavy heritage of

142 closed mills as from 1989-90 is likely to be used to liquidate atleast half of them.

Edible oils and Sugar The edible oils scene presents several important features. First it is no longer dominated by the large imports which were made available at concessional rates to the vanaspathi industry, which every one are of the past mid year reviews queried,[37] raising in the process a number of difficult questions which were never addressed either by government or the trade. The issue has been settled by the increased production of oil seeds and domestic edible oil which, together with the foreign exchange crunch, has cut back edible oil imports. Second the gap between production at 48 lakh tonnes for the oil year ending October 1990 and demand at 57 lakh is caused mainly by lack of any means of measuring the supply from various sources, while the demand figure is primarily a guestimate. Third, and as one result, prices of the oils exceeded the price band set in the integrated edible oils policy as recently as in January 1989. In the first week of June 1990, the price of ground nut oil, for instance, pierced the maximum price band ceiling of Rs.25000 a tonne to reach Rs.29,700, the price of other oils - sesamum and rapeseed followed suit. The government's decision to revise the band upward to Rs.22,000 to Rs.28,000 a tonne came too late. The intervention in the market of the National Dairy Development Board which did not have the stock to back up its effort to hold down prices was ineffective, as its stock of edible oils, which came out in the open, was only

70,000 tonnes instead of the 3 lakh tonnes that was expected. Fourth there was need for some imports which was delayed because of the disagreement in the government and was inadequate when made. The government has not faced the trade off relations between its desire to give the farmers as high a price as possible and the need to give consumers, particularly from the lower middle classes, reasonable prices - which as pointed out, held up speedy agreement on the quantum of imports and also accounted for its inadequacy. With regard to <u>sugar</u> there are some improvements in the current sugar year - October 1989 to September 1990. First, there is an estimated sharp 20 per cent increase in production at 109.00 lakh tonnes (the government estimate is lower at 101 lakh tonnes) against the low 87.52 lakh tonnes in 1988-89. This low production was attributed by the government to lesser cane availability and sucrose content of the cane grown in UP and Bihar which is true, but is also due to the mixed up nature of partial control and dual pricing during the year. As against the increased production in 1989-90 there was a sharp reduction (by 50 per cent) of the carry over from the previous year. There was also a welcome slowing of the per capita consumption of sugar during the year which grew by 4 per cent compared to the previous year's 6 per cent. Was this due to the lower offtake by the poor sections of the population in relation to the high prices which have been at a high Rs.9 per kg in 1988-89 and only slightly lower at Rs.8.52 in 1989-90. The import of 7 lakh tonne of sugar which arrived during the year was somewhat of a panicky reaction to the rise in prices which should have been met by allowing the price to remain high and move to

higher levels for the well to do, and to subsidise the price for the poor, through the public distribution system. The June 1990 licensing policy decision of the government raises question. It declares that licenses for new sugar factories will be issued, subject to the availability of potential for the development of cane. Further licenses for downstream units for the use of molasses for industrial alcohol are to be given freely. The minimum economic size for a sugar factory as established at 2500 tonnes crushing per day and preferences in licensing are to be given to cooperative and public sector factories. Soon after this announcement, 4 states have applied for licenses for a total of 42 factories. Two of them are water starved states, which will involve shifting their scarce irrigation resources from growing paddy or fruits and vegetables to water demanding sugarcane, which consequence of the policy has been earlier questioned under the sugarcane section.

This brief review of manufactures should be followed by a study of the infrastructure for both agriculture and manufactures to which attention is now turned.

Infrastructure

Crude

Production of crude was marked by two important developments in the Seventh Plan, one was the 60 per cent increase in its output, and the other emergence of the south of the country as a major producer of oil and gas. These trends continued into

1990-91, with ONGC forecasting that its production may exceed 31 million tonnes during the year and 35 million tonnes from all sources. Similarly oil and gas was struck in the first well in the structure of the Krishna-Godavari onland basin and gas at a well G338-1 in the basin. Net imports of crude oil are estimated for the year at 18 million tonnes which is a small 8 per cent, declining over the 1989-90 imports. On this basis, domestic production of petroleum products will be 49.50 million tonnes and net imports 7 million tonnes (which is a large jump of 30.8 per cent over 1989-90 imports). Consumption of petroleum products is estimated at 57 million tonnes. The Gulf crisis means that these limits should be regarded as a maximum not to be exceeded at any cost. This crude profile in 1990-91 raises several issues. First the rate of consumption growth of crude in 1990-91 if continued into the future will result in domestic crude reserves being exhausted by 2010, which is only two decades from now. This calls for a rather sharp reduction in consumption of crude and its production. Second unlike what is popularly believed, motor gasoline consumption at 3.70 million tonnes will be only one fifteenth of the total 57 million gasoline consumption in 1990-91. The major consumption items are High Speed Diesel at 20.50 million tonnes, fuel oils at 9 million tonnes, and kerosene at 8.65 million tonnes. In percentage terms all three will be increasing at 5-6 per cent this year. This means that the closing of petrol pumps on half day on Sundays and restricting its functioning from 7 a.m. to 7 p.m. on other days may help save foreign exchange but not sensibly reduce consumption or imports of crude and petroleum products. Rather what needs concentrated

attention is the transport sector. ONGC's Economic Environment Scanning Group in its study on energy conservation points out that the oil intensive transport sector consumes more than 50 per cent of petroleum substitutes. It states that in 1984-85 the last year for which full data is available, the transportation sector consumed 110 million tonnes of coal replacement, with the share of oil at 89 per cent, coal at 8.8 per cent and electricity at 2.2 per cent. If these trends continue in 1990-91, road transportation accounting for 85 per cent of freight movement and 80 per cent of passenger transport will consume 175 million tonnes of coal replacement, with the share of oil increasing to 93 per cent. Hence the transportation demand for petroleum products should be moderated in the Eighth Plan to both conserve our fast depleting crude reserves and save on foreign exchange outgo through: a) modernisation of railways, b)of electrification and computerised freight movement, c)improved road conditions and extensive use of water ways, d)new product lines for liquid fuels and gas and e)fuel efficient vehicles. Also ONGC's decision to cut its energy consumption by 5 per cent by replacing obsolete equipment by modern ones and using alternate sources of energy is timely. The other major issue in this area relates to gas. Todate there is no overall policy on gas, and this is one issue which should be dealt with now in 1990-91. The main issue is obvious and solution clear. At present most of the gas is being flared and as 90 per cent is associated with the production of crude, it has been estimated that to reduce the wasteful flaring of associated gas, crude production will have to be reduced by 3

to 4 million tonnes a year, which is a large 20 million tonne over the Eighth Plan period. This is suicidal as it will mean expanded crude imports and increased foreign exchange outgo. The government of India's working group recommends that both associated and free gas be separated into four fractions and be used as:

i) natural gas liquid for petro chemicals and gasoline blending

ii) C3-C4 fractions for domestic fuel as LPG

iii) C2-C3 fractions for petro chemicals

iv) C1 for fertilisers, power generation and industrial fuel

Power generation and fertiliser production are crying aloud for the use of gas as feedstock and so are a multitude of industries. What the gas policy must establish is the building of the infrastructure - the network of pipelines to carry gas to the needed centres in central and South India. Some of the South Indian gas finds produce free gas and so the building of the infrastructure for this area can wait until the net work for the use of associated gas gets under way. On top of every thing, gas is ecologically safe as it is environmentally clean. All the elements are available for setting forth a policy for the Gas Authority of India (GAIL) now.

Coal

Coal production which was a record 200 million tonnes in 1989-90 is targeted at 221 million tonnes for this year. The coal scene faces several problems. First, the coal production is still heavily dependent on open cast mining (over 65 per cent in 1989-90), which is less efficient and involves use of outdated machinery than under ground mining. Power stations and industrial plants want the superior coal that underground mining produces. This will involve a gradual shift in mining equipment in the direction of underground mining. Second, the labour productivity of coal mining is still well below par. In underground mining, output per manshift has remained stagnant at 550 kgs. For open cast mining it is now 1710 kg and is anticipated to double at 3.5 tonnes by the terminal year of the Eighth Plan through the use of modern equipment. But this OMS for open cast mining should be compared with 18.1 tonnes in Australia and 15.9 tonnes in the USA. A third problem is the unsatisfactory character of coal despatches. Industrial consumers like steel plants, coke ovens, power stations, cement and fertilisers units received less coal at 64.20 million tonnes during April-February 1989-90 against 66.02 million tonnes during that period in the previous year. Actual supplies of coal to consumers in Madhya Pradesh (27.7 million tonnes), Uttar Pradesh (26.8 million tonnes), Bihar (18 million tonnes), West Bengal (14.8 million tonnes) were delayed but the supplies reached them as they are near producing centres. It is Maharashtra (18.5 million tonnes), Tamil Nadu (14 million tonnes) and Gujarat (13.5

million tonnes) which are far away from the mines who face serious delays in receipt of coal. In some of the states like Tamil Nadu cement plants had to be closed down for 3 months for lack of coal, and power plants had to live a hand to mouth existence with less than 2 weeks coal. A fourth issue relates to coking coal needed by integrated steel plants. As domestic coking coal is both limited in quantity and low in quality, the plants have been allowed to import coking coal, primarily from Australia, of 5 million tonnes, which may rise to 5.4 million tonnes this year and is mixed with local coking coal of 1 million tonnes to meet their needs. There is no way out of this bottleneck: it should be taken into the cost accounting in proposing new integrated plants or their expansions. Finally, there are some short term problems in the coal field that have to be faced this year. In a somewhat desperate move, Coal India decided not to supply coal to 9 defaulting power stations from mid May - 3 in UP and one each in Haryana, Gujarat, Madhya Pradesh, Maharashtra and Damodar Valley Corporation. Their outstandings are Rs.1570 crores, of which Rs.715 crores are in dispute. The Railways, at Coal India's request, did not arrange for wagons for these plants. The outstandings are being settled. Another more serious development is that as a result of the 7 per cent hike in railway fares, coal has become 5 to 7 per cent more expensive than furnace oils, to which plants are now switching. Also a petro chemical plant which was consuming 100 tonnes of coal, has now switched over to furnace oil because it is more fuel efficient. This is serious because it goes against the policy to economise on the use of crude and petroleum products,

to conserve the country's crude reserves and not add to the foreign exchange outgo. On both these issues, the least cost option is not the prefer option for the country.

Electricity

The Economic Survey 1989-90 reports that electricity generation increased at a growth rate of 9.5 per cent, adding 4885 MW in additional capacity in 1988-89 making the total installed capacity in March 1989 at 59040.38MW (comprising 39677.33 MW thermal, 17798.05 MW hydel and 1565 MW nuclear). The Plant Load Factor of the thermal plants was 55 per cent with the union sector PLF being 62.6 per cent. Some of the features of the electricity scenario are: i) in the hydel thermal mix in the country, thermal capacity is both preponderant at 67 per cent of total installed capacity and is increasing in its growth rate at 12 per cent compared to 8 per cent in the case of hydel. Previous Mid Year reviews have called attention to the hydel capacity being held back for some reason. So the World Bank's decision this year under its bilateral aid Energy Sector Management Assistance Programme (ESMAP) to fund a series of mini hydro schemes upto 3000 KW is timely. Under this programme it is planned to harness the hydraulic energy associated with the existing irrigation dams and canal drops in four southern states of AP, Karnataka, Kerala and Tamil Nadu as well as in Punjab. In each state some 15 to 20 schemes based on economically the most attractive projects by the canal system will be constructed. This might also go some way in balancing the heavy bias of

electricity and all energy systems in the country against the rural countryside. It has been estimated that the rural and urban poor who constitute 40 per cent of the population according to official statistics, and including those living at or just above the poverty line are 70 to 80 per cent, use only 20 per cent of electricity - in pumpsets and village and domestic lighting. This means that some 80 per cent of electricity and modern energy are consumed by the 20-30 per cent of the well to do. And so when in the Economic Survey, the RBI Annual Report, the Annual Report of the Ministry of Power, there is talk about the crisis in electricity supply and the short falls as percentages of requirement as presented in the table below, it is in reference to the power cuts and load shedding suffered by this small well to do minority and the industries operated by them particularly the High Tension industrial users. The problem is generalised as applying to the entire state or country, again as set forth in table below, which records the percentage shortfall of the states above the all India average for the period April-February 1989-90.[38]

Table XIII

States	Percentage of Electricity short fall
Karnataka	23.4
Orissa	22
DVC	18.4
Bihar	12.9
Jammu & Kashmir	12.1
Uttar Pradesh	10.6
Tamil Nadu	9.7
Kerala	9.4
Andhra Pradesh	9.2
All India	7.9

Source: Annual Report 1989-90, Ministry of Power

The means of correcting this imbalance at least by 2004-2005 when the estimated consumer demand of electricity will be 530 billion units against the present 270 billion units, calling for an increase in generation capacity from the current 92,800 MW to 210,000 MW and careful use of traditional and non conventional fuels and the urgent need for coordination at every level - national down to block - have been set forth and need to be operationalised.[39] The most important development in the electricity area in 1990-91 is the decision of the government to amend the Electricity Act to permit the private sector to participate in power generation. This move to invite private sector participation in this area goes back to 1961, when the then Minister of Industries of the state of Tamil Nadu invited a

consortium of private industries to set up captive plants to meet their power needs and feed any excess capacity that they generated into the state grid. From time to time, there have been proposals by state governments for private sector participation in power generation. Now faced with the problem of raising resources for the additional capacity generation of 48000 MW during the Eighth Plan (with resources being provided for only 38,000 MW as noted earlier), the barrier against private sector participation has been broken. The Act is to be amended on the basis of the following policy framework: a) an increase in the rate of return of the participating private sector enterprises from 12 to 15 per cent: b) a rise in the debt equity ratio to 4:1 with scope for capitalisation of interest during the initial construction period as one means to help the enterprises to raise resources: c) a lengthening of the initial period of validity of the licence from 20 to 30 years and subsequent extension for 20 years on each occasion: d)exemption from MRTP clearance for private license: e)independent operation of private sector companies, like NTPC in association with their state government or SEBs: f)a high power board to provide single point clearance to applicants as a means of encouraging foreign private investment: g) captive generating units are encouraged to sell/distribute surplus power to SEBs on the basis of contractural agreement and standardised two part tariff: and so to ensure additional resource mobilisation atleast 60 per cent of outlay is to come from sources other than public sector financial institutions, atleast 11 per cent by way of promoter's contribution. This is an important step which will increase

power availability. At this stage, there are two issues which need attention. First the provision for participation by foreign companies needs watching to see that their import of machinery and spare parts do not weaken the domestic capital goods industry and that they do not introduce new or additional voltage systems. Second there is the bottleneck which increased power generation in the country faces with lack of good quality coal with low ash content, which cannot be met by imports. One way out would be to open up the hydel sector to this private sector effort. In any case the contribution of the private sector to the massive power needs cannot be assessed at this stage. Will it be sizable or relatively small? Also will it be able to charge the kind of price that the public sector electricity plants charge as utility pricing? In any case the state's Electricity Boards have to put their own house in order by correcting their irrational tariffs, excessive manpower, inadequate inventory control, poor maintenance and management. This would not reduce the finances needed but generate some funds as surplus. 1990-91 it is hoped will see the start of a new effort to augment power generation, needed very much both by agriculture and manufactures and railways.

Railways

The railways annual report to parliament refers as usual to its continuous improvement and expanded performance, in goods traffic from 302.1 million tonnes in 1988-89 to 311.0 million tonnes in 1989-90 and targeted to rise by 4.5 per cent this year

to 325 million tonnes and in passenger traffic from 3500 million persons in 1988-89 to 3649 million persons in 1989-90 and targeted at 3788 million persons in 1990-91 which is a 3 per cent increase. There are a number of questions on the working of the Railways as it applies to 1990-91 (and future years) which arise also from an important innovation introduced by the Minister in the form of a Status Paper on Indian Railways which it is fervently hoped will become an annual feature[40]. A first question that is raised is why there should continue to be a separate railway budget on which the railway staff has to spend an inordinate amount of time this year and every year, instead of merging it with the general budget which is presented to parliament exactly one week later. This continuation of the colonial practice of presenting a separate railway budget misses the linkage of the railways to the rest of the economy (for instance in boasting about how the goods traffic is rising year after year, the point missed is that part of this increase in the movement of foodgrains which increases in years of poor harvest and to that extent the increased traffic figures is not a positive sign) and loses out on the incentives and financial inducements available to other public sector units. Could a small expert committee of the Ministries of Railways and Finance work this year to produce for 1991-92 a single budget which would include that of the railways. A second question relates to the reasons for the reported 30 per cent under utilisation of modern locomotives - diesel and electric. There has to be some under use of capital in all industries. What is its extent in the railways? A third question relates to the

purpose of technological upgrading which is not to reach self sufficiency as stated in the Paper which cannot be done in view of the rapid rate of change in technology, but to improve productivity and efficiency through the synergy process. The areas of R&D listed are sound except for a)the curious omission of the increasing use of non conventional sources of energy and b) the reference to the `blue sky area' of research which we cannot afford and was used by the last government as a kind of rhetorical flourish. Further the technological choice should not be set as options as the Paper does - electrification or diesalisation, a uniform broad gauge or a mixed system. Both are needed. In the case of first option, we will never have enough high speed diesel to afford complete diesalisation. Here the greater use of solar energy and photo voltaic cells in place of electricity should be intensified. Similarly the mixed system has an advantage and can coexist with a predominant broad gauge system. A fourth question is the priority as between expenditure/investment on opening new lines and conversions of metre gauge into broad gauge on the one hand, and replacing the outdated railway equipment and modernising the worn out tracks, on the other. The Paper states that we are starting 1990-91 and the Eighth Plan with 12000 km of worn out tracks, 5000 overaged coaches and wagons and 3400 outdated steam traction locomotives which unless replaced will slow the movement of goods and endanger the safety of passengers. On this, the public discussion of the issues raised in this document might be a means of educating the public and through them the Members of

Parliament who keep pressing for the wrong priority of new lines and gauge conversion in their constituency in their state, whenever the Annual Railway Budget comes up for approval. A fifth question relates to the part of the responsibility of the Railways for the delays and shortfalls in delivery of coal to thermal plants, cement to the North east and foodgrains to Kerala. This serious issue has been discussed as far as thermal plants are concerned. Finally there are nagging financial issues which need attention such as the need for the railways being subsidised by the general budget for the non commercial functions which are required of it, and railways using the technique of cross subsidisation whereby the traffic meant for the poor in freight and fares - should be subsidised by the traffic relating to the well to do. This is the sound principle of the railways charging what the traffic will bear. There should be an audit on how and where this is being violated. The Paper states that Railways should be allowed to raise revenues in non conventional ways. Whether increased net revenues are needed and raised by conventional or non conventional means, there should first be established that railways are making the maximum saving in administrative costs and the operational ratio, and charging the optimum rates for high class traffic and fares for well to do passengers, before other sources of revenues are examined.

Shipping

The shipping industry is in a derivative position - its state of expansion or contraction depends on the state of Indian and World Trade. In 1989-90 there has been practically no increase in the cargo shipped from the ten major ports at 142.1 million tonnes in 1989-90 compared to 146.4 million tonnes in 1988-89. This stagnation is due to the fall in the imports of POL, foodgrains, edible oils. Here again is a case like the meaning of the level of the Railways revenue earning traffic, where a fall in the cargo handled could mean that the economy is producing more of these goods, is less dependent on imports and to that extent is buoyant. As far as shipping is concerned, against the target of 7.5 million GRT in 1989-90, the actuals are 6.5 million GRT, which has been a decline in acquiring fresh tonnage. These are in part due to manpower shortages, but more to shortages of the foreign exchange needed. With various concessions and liberalisations on shipping sources announced by the government in 1989-90, - in regard to restructuration of shipping companies and shipyards, approval to borrow abroad both from ship building countries and commercial markets, fiscal incentives and revival of sick shippping companies, encouragement of the private sector to acquire ships through simplification of procedures, - 1990-91 should see a return of buoyancy and an increase in the number of ships, particularly by the Shipping Corporation of India which is now able to obtain block approval by government for ship acquisition. The 1989-90 strength of 6 million GRT comprising 402 vessels for coastal and

overseas shipping should increase in 1990-91 by 6-7 per cent involving 1 to 1.5 million GRT.

Non conventional Energy

The major components of the non conventional and renewable sources of energy are biogas, solar energy, wind power and bio mass which have now reached the commercial stage and will be in further use in 1990-91. The other sources like geothermal energy and ocean energy are still in the laboratory stage. The most successful programme is the biogas programme - both the family size and community/institutional type plants. So far over 12.22 lakh plants have been set up, generating biogas equivalent to 43.20 lakh tonnes of fuel wood. For 1990-91 the target is to instal 1.8 lakh plants against the 80,000 installed in 1989-90[41]. What is particularly encouraging is that of the 19,482 plants evaluated by the autonomous agencies comprising Kirloskar consultants, Pune, IIM, Ahmedabad, Besant Raj, Madras, Centre for Studies of decentralised industries, Bombay, Operations Research Group, Baroda, NCAER, New Delhi, Agricultural Finance Corporation, Bombay, 84.3 per cent were found to be working satisfactorily. The second important programme is the fuel efficient smokeless chulas, under which 67 lakh chulas have been installed.. During 1990-91, 18.27 lakh chulas are targeted to be established at a financial outlay of Rs.12.50 crores. The direct and indirect benefits of this programme are wide ranging in terms of health - without a chula, the average rural housewife in operating an ordinary oven inhales the equivalent of smoking 120 cigarettes a day -, fuel saving - the cutting of 1 crore trees a

day, according to satellite imagery which shows the loss of one million and a half hectares of forestry a year -, women's welfare - making rural women every day work not for 40 hours only, and not for a 5 day week, to climb up hills and into forests carrying 20 to 25 kgs load on their back.[42] In the solar thermal extension programme, upto December 1989, 2490 solar water heaters, 36 solar air heaters, 7683 stills and 4174 domestic water heaters have been established in industries, dairies, canteens, hostels, hospitals and houses, 1,40,000 solar cookers have been installed. One problem with the smokeless chula programme is that it "continues to be heavily subsidised, almost 100 per cent by the government" and similarly the solar thermal devices are subsidised at 30-40 per cent by the government. This is not only too heavy a cost but also prevents a correct evaluation of their marketability. 6000 villages have been provided with solar photovoltaic lighting systems. This programme is still partially in the R&D stage from the point of view of development of low cost solar cells, as its high cost is still an obstacle for its wide spread use. There is also work on improving the efficiency, reliability and life of the photo voltaic modules. 30 experimental power plants have been set up, while two powerplants - a 20 KWP plant at Motilal Nehru Sports Stadium, Rai Haryana and a 25 KW plant to meet the energy needs at Forest College, Orissa - are being undertaken to understand and improve the design, integration and evaluation of solar photo voltaic systems. During 1990-91 it is planned to supply 5000 street lights, 300 community/TV systems, 60 water pumping

stations, 20 remote area telecommunications sytems. The report that the administrative ministry for industrial registration of photo voltaics states that there are 6 manufacturers which have started production of solar cells and modules, and two are engaged in production of silicon material, in which one company Suryavonics is export oriented. Under the wind energy programme, 2461 wind pumps have been installed and wind farm projects with an aggregate capacity of 10MW have been set up in 6 states. This is a small amount in relation to the estimated wind resource potential of 20,000 MW for power generation alone. But this slow start will quickly gather momentum in 1990-91, as it is found that cost of power generation from wind farms is comparable to that of thermal power stations. The other big advantage that wind energy plants have over thermal/hydel energy is the time element, of a 4/5 month as gestation period in the case of wind energy against 4-5 years in the case of thermal/hydel plant. The bio mass programme is still in the R&D stage, but has great potential under its fuel wood production programme, particularly the energy plantation taken up in problem soils comprising alkaline soils, water logged soils, ravines, sand dunes and other degraded soils. Similarly the Biomass gasification programme that is being experimented successfully at two IITs (Bombay and Delhi), Madurai Kamaraj, Punjab Agricultural, Anna and Poona universities among others has so far developed 480 gasifier systems of different natural gas and modes totalling about 5 MW. Starting experimentally in a small way, the programme of non conventional for energy is vital for our energy deficient economy and is part of the Science & Technology scenario.

Science and Technology

In the area of science and Technology, there were 5 important positive developments which will be carried into 1990-91. The first is the National Centre for Medium Range Weather Forecasting established in 1988-89. It has a remarkable record in the two following year in a)3 to 10 days advance Weather forecasting and b) its operationalisation for the preparation and dessimination of weather based agro advisories to farmers. In 1990-91 it has already two important achievements. It forecasts the terrible May Cyclone which devastated Andhra Pradesh but involved little loss of human lives because of its correct forecasting. The other achievement this year was the forecast of the onset of the southwest monsoon which was correct to the precise date and the possible -4 it predicts for the monsoon as a whole. The second development is the application of science and technology for rural development in 1988 reported by the Department of Science and Technology[43] involving a)training 2000 artisans in various trades like leather tanning, pottery, textile technology, new agricultural techniques, b)25 projects for reducing the drudgery suffered by women, c)an integrated waste management project through building and maintaining toilets and processing garbage into fuel pellets, d)several science projects for tribal development in Bihar and Madhya Pradesh and e)pilot scale base central set up in 10 districts by the natural resources management system which will be used for playing a multi dimensional role in micro level planning and efficient management of the country's natural resources. This is part of

the 35 point action plan, some of which are under implementation which are being reoriented to benefit and directly address the "disadvantaged groups". A number of biotechnology based developmental programmes in agriculture, animal productivity, industry, micro biology, bio mass production, and health relevant to the rural areas are part of the action plan launched this year 1990-91, by the Department of Biotechnology. The Action Plan itself is a sustained coordinated and integrated effort on the part of all scientific departments and agencies to bring about a visible improvement in rural areas. Here the scientists are really getting their hands dirty in applying their skills to the large neglected (by science) rural countryside. A third positive development is SAIL's report that its R&D centres have completed 172 projects in 1988-90 under 5 key thrust areas of basic research, improvement in raw materials, energy conservation, improvement in productivity, development of new products and futuristic technologies. On the negative side, despite the Departments encouraging report on technology promotion and the implementation of the 1983 technology policy statement, the number of foreign collaborations are increasing year after year from 520 in 1988-89 to 618 in 1989-90 and despite the Department's impressive listing of inhouse R&D facilities in Indian industries, very little adaptation and assimilation of the purchased foreign technology, even when it is not barred by the terms of the collaboration agreement, is reported. This is serious because the 1983 Technology Policy statment begins with stating that the technology needed by industry, by and large, is

technology developed indigenously through inhouse R&D units of industrial enterprises (along lines referred to earlier by SAIL) and through the large R&D national laboratories, particularly for the technological upgradation of small scale industries, which cannot each afford its own inhouse R&D. Technology's function is to upgrade and update production techniques, modernise the functioning and management of enterprises, improve product quality and lower costs. On all these grounds, the use of technology in our enterprises has still to attain these end purposes. Rather when technology use is being contemplated, the first reference and preference is for foreign technology whose import through sale and transfer seems safe, speedy and a ready made short cut. The result is that despite the department's vigil much of the technology imports is routine and repetitious. We have still to ensure the application of that part of the Technology Policy statement which calls for the use first of all indigenous technology and resorting to importing technology in a selective manner for 'high tech' areas or for accelerating exports, and even so to make technological imports conditional on their being absorbed and assimilated by the importing unit, with the help of the R&D facilities of the country. Perhaps back of all this is the fact that though in quantitative terms frequent reference is made to India having the third largest stock of scientists and technologists, a recent Unesco study very guardedly refers to the qualitative deterioration of our scientific manpower - the declining quality of science degree holders who have been trained with inadequate or outdated laboratory equipment to which should be added what is known in

the country about the problems created by shifting science and technology learning from english to the mother tongue without adequate preparation and the increasing number of students who are admitted to higher education who manage to score high marks through use of devious methods. Science and Technology development and application to industry and agriculture require a sound educational foundation.

Human Resources Development

The Annual Report of the ministry of Human Resources Development in five volumes records the achievements of the sector in 1989-90 and sets forth the perspectives and targets for 1990-91, all in quantitative terms. It reports on the principal achievements in the move for universalisation of primary education in 1989-90 by covering 4035 blocks for building/improving school infrastructure, covering 2.99 lakh primary schools, providing 0.78 lakh teacher posts, organising 3.60 lakh non formal education centres and mass orientation of 13.47 lakh teachers: in adult literacy, the National Literacy Mission covered in 1989-90 513 projects with 1.33 lakh centres where 39.72 lakh adult illiterates were being given literacy learning plus 853 states projects with 1.22 lakh literacy learners, the Mass Programme of Functional Literacy involving students, employers and trade unions, railway officers, the defence services and exservice men, through which some 8 million illiterates were given instruction and the 30,000 post literacy Jana Shiksha Nilayams to ensure that the neo literates continued

with their learning; in secondary education 8,000 vocational courses were approved for 2000 schools, the number of Navodaya Vidyalayas increased to 269 enrolling 49,000 "talented" rural children, in technical education 433 projects for modernisation plus upgrading of 3000 polytechnics were attained in 1989-90: in higher education, while consolidation was the aim for universities and colleges, 102 colleges were approved for autonomous status.[44] For 1990-91, these programmes at the primary, adult literacy, secondary, technical, higher education levels are being continued and stepped up, except in the case of Navodaya Vidyalayas which will not be increased, pending their review, to reach established targets. 1990 being the UN declared International Literacy Year, the government and voluntary agencies are making special efforts to make certain defined areas wholly literate, as Ernakulam district has been and Pondicherry and certain districts in Karnataka, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, West Bengal, and in which task the Bharath Gyan Vigyan Jatha/Samithi is taking a leading part to motivate all literates and illiterates in the entire country on the need for literacy. The number of illiterates and the progress of the campaign against illiteracy by region and sex is shown in the table below:

Table XIV

(Number literate per 1000 persons by sex and location)

Year and Source	Rural Male	Rural Female	Urban Male	Urban Female
1977-78(NSS 32nd round)	415	184	688	500
1981(Cenus 1981)	408	180	658	478
1983(Nss 38th round)	449	219	693	515
1987-88(NSS 43rd round)	484	206	719	556

Source: NSS and Census

The census and NSS data are not usually comparable, but the direction of the literacy effort is clear. There are several problems in this summary of education and the Human Resource Development. First the five volume Annual Report is both disjointed and incomplete. It is disjoined because each of the five volumes - on education, culture, arts, women and child development and youth affairs and sports - is a good readable account of the area, but is not related to the rest in an integrated manner: it is incomplete because one cannot talk of human resources development without taking into account of health and labour and employment which are under separate ministries and treated independently. Second the report such as it is reflects the kind of centralization which is anti education and anti culture. In the field of primary education, non formal education, adult literacy and secondary education, the initiative should rest not even with the states, but with the education unit concerned, where the states should play a guiding, coordinating

and financing role. Instead, to talk of a national core curriculum for primary education, or common text books produced for all schools in all states - rural and urban - by a central agency like NCERT negates the basis of learning which in the end is a 1:1 affair. Again in the field of culture, the recent report of the cultural review (Haksar) committee has shown that the union government organising culture, cultural demonstrations, upna utsav etc is anti culture. Third the failures in the education, culture and sports field are not reported. For instance the Computer Literacy and Studies in Schools (CLASS) started with great enthusiasm in 1986 has now died down, with nothing reported in 1989-90. The failure was due to the ministries and agency concerned with Human Resources, Electronics and NCERT pulling in different directions, with the education ministry attempting to control the project in an mateurish way, whereas if the 10,000 micro computers for 10,000 schools are to be operated, the economics of the project (unworked after 5 years) should be worked out and the project given a certain degree of pedagogic and scientific freedom. A second doubtful area is, the results in terms of learning, of all the impressive statistical data set forth in the Annual Report. How much learning is actually taking place in the 30 lakh primary schools of the country is not known or evaluated. A third area of enquiry is how much of the target of enrolling of 20 per cent of +2 entrants in the vocational stream has been achieved in 1989-90 and what are the corrective measures proposed to stop the failure in this matter. Finally the organisation and future perspectives of the ministry are highly disturbing. Now for over 8 months

after the new government was formed there is still no cabinet minister in charge of the vast area of Human Resources Development: after a gap of 4 months ministers of state have been appointed for Education, women and child development, culture and sports and youth, with no senior cabinet rank minister to coordinate them. But even more serious was the election promise repeated in the Approach Document to the Eighth Plan of "a major overhaul of educational policy", "a thorough revamping of the educational system" which was hanging over the system for over the 6 months like a Damocles sword, making any forward movement impossible. And during this period, the purpose of this review was variously defined . The union minister of state for Human Resources Development described the purpose as reviewing the 1986 policy and recommending measures to take the country towards "a genuinely egalitarian and secular social order". His predecessor, the minister of state in charge of education, told the Lok Sabha that the government was devising a new fee structure on the basis of ability to pay. The Prime Minister who has till now continued with Human Resources Development as one of his numerous port folios told the Lok Sabha that the education system is to be reviewed with a view "to generating employment, reducing disparities and promoting integration"[45] (without indicating where learning will be in all this). He also stated that the government had prepared a blue print for the universalisation of primary education by 1995. Elsewhere he called for "radical change in the present education system". Finally following this confusing and varying definitions of its

scope in May, a 17 member committee was set up with Acharya Ramamurthy as chairman to review the current educational policy, including Operation Blackboard, as well as the Navodaya Vidyalaya and the system of autonomous colleges and make its report in six months. This is a thoroughly bad decision for several reasons. Education is not a plant which can be pulled up every few years to see how it is growing: this way it will die. Education and Human Resources Development need some continuity and to put under frequent review and change. Primary education development (Operation Black Board) and the system of autonomous colleges (which is the norm for all colleges in all countries except for this sub continent) is to introduce a discontinuity and instability in the system. The areas needing some special attention are clear to every one - speeding primary education and adult literacy, the education of women and girls, correcting discrimination suffered by scheduled castes and scheduled tribes students, the examination reform needed, the basic lacks of the rural schools, reducing the mismatch between education completers and the employment market and ending the Navodaya Vidyalaya system. These have been shown up in the operation of the 1986 National Policy on Education and could have been attended to, without this committee being set up to undertake "the thorough revamping of the educational system".

It is now necessary to turn to the dimensions of savings and investment in the economy.

Savings and Investment

Savings, both gross and net, are rising over the last 3 years 1987-88, 1988-89 and for 1989-90, though not reaching the level of 21.8 per cent of GDP and 13 per cent of NDP attained in 1986-87 as the Annual Report of the Reserve Bank for 1989-90 shows[46]. On the other hand, the Planning Commission's Approach Paper to the Eighth Plan places the current level of savings for 1989-90 at a lower level and sets a higher level target for the Eighth Plan. How can this be achieved and to examine the present and future prospects, the estimates of gross and net domestic savings set forth in the last year's mid year review should be brought uptodate.

Table: XV

SAVINGS AND CURRENT PRICES

	GROSS								NET							
YEAR	HOUSE -HOLD	% OF GDP	PRIVATE CORPORATE SECTOR	% OF GDP	PUBLIC SECTOR	% OF GDP	TOTAL	% OF GDP	HOUSE -HOLD	% OF NDP	PRIVATE CORPORATE SECTOR	% OF NDP	PUBLIC SECTOR	% OF NDP	TOTAL	% OF NDP
1980-81	21835	16.1	2284	1.7	4654	3.4	28773	21.2	16343	13.2	584	0.5	- 241	- 0.2	16686	13.5
1981-82	23918	15.0	2496	1.6	7254	4.6	33468	21.1	17318	12.0	495	0.3	1396	1.0	19209	13.3
1982-83	23940	13.5	2908	1.6	7822	4.4	34670	19.5	16374	10.2	568	0.4	842	0.5	17784	11.1
1983-84	31088	15.1	3172	1.5	6781	- 3.3	41041	19.9	22556	12.0	407	0.2	-1262	- 0.7	21701	11.5
1984-85	34677	15.1	3991	1.7	6533	- 2.8	45201	19.6	24561	11.8	822	0.4	-2802	- 1.3	22581	10.9
1985-86	41143	15.7	5415	2.1	8592	3.2	55150	21.0	33098	14.1	1303	0.6	-3211	- 1.4	31190	13.3
1986-87	51062	17.4	4924	1.7	7988	2.7	63974	21.8	38378	14.7	633	0.2	-5115	- 1.9	34256	13.0
1987-88	5757	17.4	5684	1.7	6689	2.0	69945	21.1	43692	14.6	455	0.2	-8218	2.8	35929	12.0
1988-89	66222	17.0	7450	1.9	8200	2.1	81872	25.0	49567	14.2	1022	0.3	-8856	-2.5	41903	12.0
1989-90		18		1.8		1.6		21.4		15.3		0.3		-3.2		12.4

Source:RBI andNational Account Statistics

The table shows total domestic gross savings at above 21 per cent of GDP in the first 2 years of the 80s, declining to below 20 per cent during the next 3 years and hovering around 21 per cent during the last four years 1985-86 to 1988-89. The Planning Commission's Approach Paper[47] places the 1989-90 gross domestic savings rate at a lower 20.5 per cent of GDP, which is well below the Seventh Plan projection of 24.5 per cent and wants to see this raised to 22 per cent for the Eighth Plan to meet the new commitments such as the right to work. This 22 per cent is a modest rise compared to the 25.8 per cent provided for 1999-2000 in the Seventh Plan[48]. Gross Domestic Savings for 1989-90 are however, placed by the Reserve Bank's preliminary estimate at 21.4 per cent as Table XV shows which it attributes entirely to the spurt in the household savings by 2.3 per cent of GDP over the previous two years. To understand how the rate of savings can be increased from 20.5/21.4 to 22 per cent during the Eighth Plan, the 3 composants of domestic savings; the household, the private corporate and public sector should further be examined. In fact the heavy reliance of the domestic savings rate on the savings of the household sector can be seen when the net ratios given in the table are examined. There the net domestic savings rate is shown as rising by 0.5 per cent of NDP over 1988-89 and 2.4 per cent of NDP over 1987-88, in contrast to the dissaving of -3.2 per cent of NDP of the public sector for each of the two years 1988-89 and 1989-90, with the private corporate sector saving being stagnant at 0.3 per cent of NDP for each of the two years. Thus the savings task of the Eighth Plan is for the

dissaving of the public sector to be turned around and for the general profitability and retained earnings of the private corporate sector to be increased.

To start with, gross savings of the household sector comprises (a) financial assets and (b) physical assets as the table below shows:

Table XVI

(Rs. crores)

	1986-87	1987-88	1988-89	1989-90
1. Financial Assets	31,346	35,113	40516	45,300
% of GDP	10.4	10.4	10.5	11.6
% of NDP	11.9	11.8	11.9	12.1
2. Physical Assets	14,118	16,494	19,279	
% of GDP	5.5	5.2	6.0	
% of NDP	5.4	5.5	5.5	
3. Financial liabilities	6,726	7,915	10,228	
% of GDP	3.1	2.9	3.2	
% of NDP	2.6	2.7	2.9	
4. Rural Net Savings	38,738	43,692	49,567	
% of GDP	14.5	14.4	14.0	
% of NDP	14.7	14.6	14.2	

Source: RBI

The table shows an increase in financial assets as percentage of GDP and NDP, as does Table XV, for 1988-89 and possibly for 1989-90. To further analyse this increase, it is found that of the several elements that make up individual financial assets there was a sharp rise in 1989-90 in currency holdings and bank deposits as against the earlier trend debentures. The Table below gives the details of the household sectors financial savings:

<u>Table XVII</u>

(Rs.crores)

	1986-87	1987-88	1988-89	1989-90
1. Currency	3090	4815	4488	
% of NDP	1.2	1.6	1.3	1.7
2. Deposits	15105	14737	18374	
% of NDP	5.7	5.3	5.1	5.4
3. Insurance	2116	2584	2823	
% of NDP	0.8	0.9	0.8	0.8
4. Provident/Pension Fund	5173	6256	7394	
% of NDP	2.0	2.1	2.1	2.1
5. Claims on government	3091	35663	4549	
% of NDP	1.2	1.2	1.3	1.4
6. Investment in shares & debentures	2621	2798	2928	
% of NDP	1.0	0.9	0.8	0.9
7. Trade Debt	150	160	160	
% of NDP	0.5	0.5	0.4	

Source: RBI

If the household sector's savings - gross and net - are to increase from 20.5 per cent of GDP to 21 per cent in 1990-91 and on to 22 per cent in the remaining 4 years of the Eighth Plan in accordance with the Planning Commission's Approach, it is Financial Assets which hold the key. Here net financial savings are important because 60 per cent of household debts is financed by Banks.[49] Saving in physical assets, comprising addition to construction, machinery, equipment and investments are less than half of financial savings and their magnitudes are still being debated. Within financial savings, households are in 1989-90 shifting their savings in the form of currency because of graving monetization, in the form of company shares and units of UTI, and investment in small savings, because all of them provide higher yields and better fiscal privileges than basic deposits.[50] How can the households be induced to increase their financial savings in 1990-91 and 1991-92 and the balance of the Eighth Plan. One obvious instrument is income taxation. In the budget for 1990-91 existing reliefs available under section 80(c) have been modified to link them with income tax, giving a rebate on income tax to the extent of 20 per cent of the sum saved in the specified form of savings subject to a maximum tax deduction of Rs.10,000 rather than allowing income deduction to the extent 10 per cent for the first 6000, 50 per cent for the next Rs.5000 and 40 per cent for the balance upto a maximum of Rs.40,000 under the previous system. The change has been justified by the Finance minister as meant to benefit persons with lower incomes. Whether this income tax provision for this year will lead to

increased savings is a question being debated with some holding that it will induce the middle level income earner to save, while others point out that this is not the group which saves, that the higher incomes group who are the savers will save less, because the new income tax scheme will be a disincentive to them. In this connection it is pointed out that despite various concessions and benefits to the urban household groups, their record in savings does not show a positive correlation between increased tax and non tax incentives and increased savings. Rather such concessions have only increased the assets of the higher income groups and encouraged them to go in for various forms of conspicuous consumption. This study concludes "in such a milieu, attempts by government to improve the saving rates by reducing subsidisation of household incomes or saving, to any significant extent, may adversely affect the disposable income of the household sector and in turn the household saving as shown by RBI.[51] This does not mean that the tax instrument cannot increase household savings which is urgently needed in 1990-91, if the target of the increasing gross domestic savings at 21 per cent of GDP is to be be achieved. For this, the tax and other instruments must go to the fundamentals of the problem which is conspicuous consumption, which should be eliminated and the resources diverted to savings. The study referred to uses strong language on this issue "large fiscal incentives for saving, in an environmeent of ostentatious life style go to augment disposable incomes of the richer segments, and lead to their logical consequence of encouraging luxury and semi luxury consumption and a production structure that benefits it".[52]

Turning next to the savings behaviour of the private corporate sector, table XV shows an encouraging increase in 1988-89 by over Rs.550 crores, raising its share of NDP from -0.05 per cent in 1987-88 to 0.3 per cent in each of the years 1988-89 and 1989-90. This increased contribution of the private sector to domestic net savings in 1988-89 and 1989-90 was due to its all round good performance mentioned in an earlier section. But the really depressing factor is that despite the many fiscal concessions in every annual budget on corporation tax, investment allowances, and customs and excise levy, the savings of the private corporate sector has remained a low 0.2 to 0.3 per cent.

It is the public sector's role which is worrisome. Its net dissavings shown in Table XV increased from Rs.5115 crores in 1986-87 to Rs.8218 crores in 1987-88, due mainly to the dissaving of the administrative departments at Rs.10,742 crores, which cancelled out the increased saving of the non departmental enterprises at Rs.2524 crores. The public sector's dissaving continued and increased, recording -2.7 per cent of NDP for 1987-88, -3.2 per cent in 1988-89 and -3.2 per cent in 1989-90. In 1988-89 also the increased savings of non departmental undertakings at Rs.2728 crores is lost in the high dissaving of the administrative departments at Rs.1161.4 crores. This distinction between the performance of non departmental undertakings and administrative departments is important, because it is rightly pointed out that the high level of households saving is sustained by substantial subsidisation of household

savings, and that such subsidisation is in part responsible for the dissaving of the public sector. This is not true for 1987-88, when the dissaving of the public sector was entirely due to the administrative departments who are not involved in subsidising the savings or consumption of the household sector.

Turning next to capital formation at current prices, updating the data of the last mid year review, the table below sets forth the trend in gross and net capital formation/investment..

Table XVIII

	Gross Domestic	% of GDP	Net Domestic	% of NDP	Net Inflow of Foreign Resources	as % of GDP	as % of NDP	Gross Domestic Investment	as % of GDP	Net Domestic Investment	as % NDP
1980-81	28771	21.2	16684	13.5	2253	1.6	1.8	31024	22.8	18937	15.3
1981-82	33458	21.0	18999	13.1	2007	1.9	2.1	3646	22.9	22006	15.2
1982-93	34444	19.4	17558	10.9	2363	1.3	1.5	3680	72.07	19921	12.4
1983-84	41308	20.0	22079	11.8	3088	1.5	1.6	44396	21.3	25167	13.4
1984-85	44912	19.5	22609	10.8	2969	1.3	1.4	47881	20.8	25578	12.2
1985-86	55658	21.2	29335	12.4	5655	2.2	2.4	61313	23.4	34990	14.8
1986-87	63974	21.8	34256	13.0	6488	2.2	2.5	70459	24.0	40741	15.8
1987-88	69945	21.6	35929	12.0	7773	2.3	2.6	77419	23.9	43702	24.6
1988-89	81872	21.0	41703	12.0	7773	2.4	2.6	77419	23.5	53203	15.3
1989-90	89400	20.5	47300	12.4	12100	2.5	3.3	103500	23.9	53203	15.2

Source: National Account Statistics, CSO Quick Estimates and RBI

The table above shows that in 1989-90 gross domestic saving was Rs.89400 crores, that during the year, the inflow of foreign capital was Rs.12,100 crores, resulting in gross capital formation of Rs. 103,500 crores. The inflow of foreign capital was a high 3.3 per cent of NDP in 1988-89, gross investment was Rs.103,500 crores. The Approach Paper to the Eighth Five Year Plan state that the net inflow of foreign capital in 1990-91 and in the Eighth Five Year will be 1.5 per cent of GDP. This is less than half the net inflow in the last year, and reminds one of the target set forth in the Draft Fifth Plan, of moving to zero net inflow of foreign resources. Here it should be made clear that that this reference to the inflow of foreign resources is with regard to what is called "foreign aid" or concessional foreign borrowing. It does not refer to foreign investments, foreign equity participation, or international commercial market borrowing. Tables XV and XVIII read with table I show that the high growth rates of the 80s at 5.3 per cent to 5.5 per cent has been coterminous with a relative state of stagnation in the rate of gross domestic saving and a decline in the rate of net domestic saving. This means that the increased GDP growth of the 80s and particularly of the Seventh Five Year Plan has been made possible not only by the increased demand for consumer durables as noted earlier, but also by increased gross and net domestic capital formation financed by the large inflow of foreign capital resources recorded in table XVIII. This is not a healthy trend - a high GDP growth made possible by large net inflow of foreign capital resources, which has also serious balance of payments over tonnes to which attention is given in the next section.

Hence the Eighth Plan Approach Paper's proposal to cut the inflow of foreign capital resources by around half in 1990-91 and in the following years of the Eighth Plan is a move in the right direction. Only the Aid consortium this year was held before this policy was finalised by the National Development Council, but even so, if the year's GDP growth backed by the new emphasis on agriculture and allied activities and small industries acceleration is effective, the target for reducing foreign aid may be achieved.

Balance of Payment and Foreign Trade

On the Balance of Payments problem and its pressure on the economy, the first matter demanding attention is the precise amount of trade deficit that is incurred. Here the Mid Year Reviews like the Economic Survey, the Annual Reports of the Ministry of Commerce, and even RBI's Currency and Finance reports have been (and are) following the DGCIs misleading under stated data on imports and the deficit. Taking the 7 years 1982-83 to 1988-89 the gap between the trade deficits as set forth by RBI and that by DGCIs is over Rs.13,000 crores which is not a small amount in relation to our foreign exchange lacks as the following table shows:

Table XIX

(Rs crores)

Year	DGCI&s Data			RBI Data		
	Exports	Imports	Trade Deficit	Exports	Imports	Trade Deficit
1982-83	8803	14293	-5400	9137	14913	-5776
1983-84	9771	15831	-6060	10168	16039	-5871
1984-85	11744	17134	-5390	11959	18680	-6721
1985-86	10895	19658	-8763	11578	21164	-9586
1986-87	12452	20096	-7644	13315	22669	-9354
1987-88	15741	22399	-6658	16396	25692	-9296
1988-89	202295	28194	-7899	20510.5	34513	-14002
1989-90	27681	35412	-7731		NA	

Sources: RBI and for 1989-90 DGCI&s

If any non official agency put out the DGCI & S figures it would be accused of fudging the figures. The discrepancies between DGCI&s figures and RBI figures for the last year reported in the table are so wide (the gap being over 90 per cent) that it is becoming serious. RBI which devotes several paragraphs in its Annual Report for 1988-89 to explain this disquieting discrepancy says it is due to the DGCI&s data not taking into actual anything that does not pass through the customs authority, whereas the RBI data is based on all foreign exchange releases that it makes covering a)payments for mobile equipment like ships and aircraft which do not figure in the DGCI&s data until they arrive in India and not at all if acquired at foreign stations for repairs. b) the 10-15 per cent payments on suppliers credits which will

appear in DGCI&s accounts only when the supplies arrive in India, c) payments for all imports but which are not reflected for some in the DGCI&s data because customs clearance is not needed for them , d) similarly treatment for all borrowwing under external assistance, and e) variable rate calculations as between RBI and the Ministry of Commerce. Given the large sums in exports, imports and deficits involved, it is necessary that there should be all round agreement to use RBI figures, unless DGCI&S changes its methodology and uses the RBI one. This may be objected to because the RBI data is available some 6 to 7 months after that of DGCI&s and that further the detailed disaggregated data is available only from DGCI&s which has led even the Annual Report for 1989-90 of the Reserve Bank to use the DGCI&s data in its export-import analaysis, though it acknowledges in a brief paragraph that the difference between the two sources has increased from Rs.3293 crores in 1987-88 to Rs.6319 crores in 1988-89.[53]. But for the economic planning and for governmental as well as business decisions, it is vital that the true state of affairs should become available to all concerned.

Turning to the balance of payments which on current account is worsening every year and even with the capital account, is rapidly deteriorating, which are set forth in the Table below and which the Approach Paper proposes to correct in the Eighth Plan through stopping export growth beyond the current 11 per cent, reduction of imports through selectivity and import substitution, and restraint in foreign borrowings, and quicker and better use of existing foreign loan resources.

Table XX

(Rs Crores)

	1986-87	1987-88	1988-89
A.Current Account Exports	+13315	+16396.4	+20510.5
Imports	-22669	-25692.5	-34573.0
Trade balance	-9354	-9296	-14002.5
Official transfers (net)	+525	+532.4	+665.8
Other invisibles (net)	+2999	+2471.1	+2907.6
Current Account (net)	-5830	-6292.6	-10.429
B.Capital Account External Assistance (net)	+3446	+2944.8	+3186.2
Disbursements	4200	+4453.9	+4859.6
Repayments	-2588	-1509.1	-1673.4
Commercial borrowings (net)	-2267	1266.0	3197.9
Disbursements	+5899	1945.7	4293.1
Repayments		1945.7	4293.1
Non-resident deposits (net)		-679.7	-1095.2
Other capital(net)		1840.1	2475.2
Total Capital Account	+5899	1442.2	2261.4
C. IMF(net)	+5227	1209.0	-855.7
Capital Account (B+C)	-672	7493.1	11120.7
D.Total current Account + Capital Account A/c	-603	-8.5	-855.7
E.Reserves and Monetary Gold	-732	956.2	-1440.3

Source: RBI Reports: Report on Currency and Finance 1988-89, RBI Bulletin January 1990.

The Export-Import trade balance data set forth in the table is that of RBI and not the under estimated figures of DGCI&s. The table shows a sharp increase in the current account deficit for 1988-89 (by near 70 per cent) to 2.7 per cent of GDP due mainly to the even sharper rise in the trade deficit. In turn, this is due to the large increase of imports by over 34 per cent, which offset the 25 per cent increase in exports. The other disturbing events recorded in the table are a)the rise in commercial borrowings in 1988-89 which is over two and a three quarter time that of 1987-88, which account for the Approach Paper's caution: "prudence requires that further increases in foreign borrowings, especially the recourse to loans of shorter maturity and on harder terms, be restrained severely" in 1990-91 and the Eighth Plan, b) the 100 per cent rise in the total deficit of the current account and capital account, which except for 1985-86 has not reached this level over the 20 years starting 1970-71, c)stagnation in invisibles and d) the large decline in reserves and monetary gold, again not reaching this low level since 1970-71.

Since the basic problem of the balance of payment deficit stems from the Export-Import performance which produced the massive trade deficit in 1988-89 and is repeated in the DGCI& data in table XIX for 1989-90, some analysis of the imports and exports is needed. On the imports side for 1988-89, the largest item was capital goods at Rs.6713 crores which is increased by 10 per cent over the previous year's 50 per cent since the first year of the Seventh Plan, followed by POL which increased in 1988-89 by

5 per cent at Rs.4245 crores over that of the previous year. This is once more an indication that there is need for restraint and cutbacks in the import of both items. The import spurt of capital goods and machinery imports is justified as being the pent up demand for imported machinery for modernisation of industries facilitated by the liberal import policy. The bulk of the machinery was however used for the production of non essential and luxury goods and can therefore be cut back sizably, if there is restraint in the life style of the well to do and their use of black money which feeds this demand. As for POL imports, the need for their reduction as established earlier will be possible if the energy conservation proposals which were advanced are accepted. Here again the popular view spread that it is the increased rate of import of bulk items and not that of capital goods which causes the large deficit is not true. While the import of bulk items declined from 44.9 per cent in 1985-86 to 24 per cent in 1988-89, the import of capital goods rose sharply from 28.3 per cent to 42.5 per cent as between the above 2 years that is for the first 4 years of the Seventh Plan.[54] Among bulk items imports, the import of foodgrain during 1988-89 was hopefully a one time affair to make up for the depletion of the foodgrain buffer stock caused by the 1987-88 drought. Of the other bulk items, the import of fertilisers is due to poor management in predicting the supply demand balance, and to under utilisation of capacity - apart from the question of equity in subsidising the use which is mainly by the large well to do farmers.

On the export side, there are many issues to be faced. On the positive side, the lead in exports are in non traditionals - manufactures by 45 per cent in 1988-89 over 1987-88 and by 23.9 per cent over the first four years of the Seventh Plan. Engineering exports shot up by 50 per cent in 1989-90 to Rs.2350 crores and are targeted at Rs.3100 crores for this year. Agro based products exports increased during that period by 112.5 per cent but a small 6.4 per cent in 1988-89 and ores and minerals by 12.5 per cent including a jump by 44.4 per cent in 1988-89. All this resulted in the export-import ratio rising from 72 per cent in 1988-89 to 78.2 per cent in 1989-90. And so the Reserve Bank's 1989-90 Annual Report is almost euphoric about the "robust pace of export growth" accelerating during the year and in emphasising the sustained strength of the export performance.[55]

On the negative side, that the private corporate sector is a net spender of foreign exchange, spending about two to four times what it earns was established earlier under the manufacturing section - private corporate sector. A recent PTI corporate trend study[56] reports that even the recognised export houses have failed in their main task of earning foreign exchange. It reports that the Federation of Indian Exports Organisation (FIEO), which is the country's premier export organisation with which 1438 trading and export houses are affiliated contributing about 60 per cent of India's exports, records that despite all the export subsidies and incentives, 75 per cent of the members contribute only 15.5 per cent of total export. While the per unit export of the top 353 units rose from Rs.17.3 crores in

1986-87 to Rs.24.3 crores in 1988-89 and is projected at Rs.29.7 crores in 1989-90, the bottom 1085 exporters had a meagre Rs.2.4 crores export per unit contribution in 1986-87, rising marginally to Rs.2.9 crores by 1988-89, and perhaps to Rs.3.4 crores in 1989-90. It is also reported that even among the top 353 companies, 186 companies (56 per cent) exported less than Rs.15 crores each and only 7 companies exported each Rs.100 crores to Rs.300 crores. Further and more importantly, the improvement in the export earning of the top 353 companies just referred to, came from the bought out products of the small scale industries (SSI) rather than from their own manufacture. Among the 353 companies, 120 companies were SSI dominated, with 95 among them 100 per cent SSI dominated. Even among the 15 affiliates of multinational companies, only five showed good export growth and even so, they and three others were SSI dominated. This trend report and the negative report of the July 1990 meeting of FIEO that, on the basis of the first quarter performance, the year's export target of Rs.36000 crores will not be reached are important not only in relation to the nature and contents of India's foreign trade, they are even more important in relation to the industrial policy and 3 year import and export policy that have recently been promulgated.

An equally disturbing picture is presented by the Export Processing Zones (EPZ) at Kandla and Santa Cruz which are 25 and 18 year's old and Cochin, Falta, Madras, and Noida which are more recent being 6 years old. The Comptroller and Auditor General in

his 1988 report states that the contribution of these 6 EPZs to the total exports of the country ranged between 2 to 3 per cent in the last 5 years and, what is even more disturbing, these EPZs instead of earning foreign exchange for the country are a net spender of foreign exchange. Between 1981-82 to 1987-88 from just Kandla net foreign exchange outgo, which means out flow - earnings were Rs.597.48 cores. Both the Import policy and the policy on EPZ and export oriented companies need to be thoroughly revised in 1990-91.

The export policy for the Eighth Plan set forth in the Approach Paper has positive and negative components. On the positive side, its emphasis on paying greater attention to expanding exports of different labour intensive manufactures of the different element of our trade is correct, as was seen in that even the exports credited to large houses comprise manufactures bought up from the labour intensive SSIs. Similarly the recommendation for adequate investment provision for infrastructure where there is a high concentration of export production industry is right and should be acted upon in 1990-91 and the Eighth Plan. On the negative side, its emphasis on strengthening export houses raises many questions which the earlier discussion on export houses has highlighted and need to be resolved, before there is any further development of export houses: also if the further development of trade promotional institutions is a reference to our quite useless foreign trade offices, which the foreign resource crunch is resulting in their being closed, the recommendation is unacceptable. Finally the

recommendation for "supportive exchange rates" is ambiguous because the discussion on exchange rate policy leads to the conclusion that there is need for a period of exchange rate stability. Hence this sector on export promotion of the Approach Paper needs review and revision at the stage of the drafting of the Eighth Plan.

In 1990-91, the new 3 year (1990-93) import export policy was announced. The policy reiterates that its aim is to encourage rapid and sustained exports, to facilitate imports for this and for the country's industrial growth generally, and to promote "efficient" import substitution - a term coined in the Janata regime of 1977-79, whatever that may mean. Accordingly, the main provisions are a) a scheme for import of capital goods at a concessional duty of 20 per cent (instead of the normal duty of 120 per cent), along with enhanced export obligation, b) a blanket advance license scheme for those exporting Rs.10 crores and more, c) 82 capital goods added to OGL and because of indigenous availability 17 items removed from OGL : d) the scheme of automatic licensing is introduced: e)export trading houses are to be used as a major vehicle for export promotion (the PTI survey on this summarised earlier is an adequate comment on this part of the policy), with those houses exporting more than Rs.75 crores being given the status of "Star Trading Houses" entitling them to enhanced import facilities: f) export of services is encouraged through grant of REP license facility at the rate of 10 per cent of Net Foreign Exchange earned: g) a

number of measures are announced to lessen licensing controls: h) 5 items are decanalised and 12 items of life saving drugs are recognised for import under OGL: and i) imports of public sector undertakings against specific foreign exchange ceilings have been increased, import of instruments liberalised, and R&D institutions recognised by DST, CSIR, higher education and hospitals are allowed to import capital goods and consumer durables for their research. This 3 year policy is a continuation of the past Import Export policies, where liberalisation is the centre piece, with a view to boosting export and industrial production. Export promotion has dominated our thinking and policy as one of the major cures to our trade deficit and our worsening debt servicing ratio, now reaching 30 per cent, as pointed out earlier. To what extent the liberal import policy has led to increased exports is doubtful. The relationship has not been even a 1:1. Using data in RBI report on Currency and Finance in 1985-86 imports of capital goods increased by 34.9 per cent, while total exports declined by -7.2 per cent and capital goods exports by a meagre 6.2 per cent: in 1986-87 the relationship between 3 figures were 53.7 per cent, 14.3 per cent and 18.8 per cent: in 1987-88 they were -2.3 per cent, 26.4 per cent, 71.1 per cent: in 1988-89 they were 9.4 per cent, 28.8 per cent and 64.7 per cent - the last two years showing a positive correlation. As for liberal imports accelerating industrialisation, in the face of a low level equilibrium trap, the use of `high tech' machinery is held to help in providing the necessary `big push' (a la Nurske and Meier) out of this equilibrium trap. There is no empirical

evidence of this occuring in India. Further, the liberal import policy is also held to promote import substitution by helping to produce in the short run more capital goods and more consumption goods and so lessen the need for such imports in the future. This was the assumption of the Mahalanobis model in the Second Plan and the selective capital goods imports followed has helped. Already after 2 months, as stated in the manufactures section, the industrial policy has been modified in view of the restricted availability of foreign exchange - the fall in foreign exchange reserves recorded in table XX has further accelerated in 1990 where the reserves are adequate only for 5 weeks imports. Atleast this shortage has changed the policy, with "the idea to restrict unnecessary imports" as the government announcement states. The reductions are a)thirty four items of capital goods that were included in OGL have now been shifted out of it and placed in the licensing category so that their imports can be made only with government approval. It is expected that 10 per cent of the overall capital goods imports of Rs.5500 crores in 1989-90 will be curbed or deflected to REP licenses, which means that Rs.500 crores will be saved on this item: b) free foreign exchange allocation for import of raw materials and components required by automobile, consumer durables and the electronic sectors will be reduced from 25 per cent to 10 per cent. On the basis of the 1989-90 imports of these sectors of Rs.4700 crores, a 15 per cent cut should yield Rs.700 crores: and c) the new facility of deemed exports benefits to indigenous production of capital goods who supply machinery against the concessional

import duty scheme as well as the scheme inducing importers to use more of the REP and other licenses to import capital goods under the concessional duty scheme will also save foreign exchange demand. Thus in 1990-91 these three reductions will reduce foreign exchange demand by Rs.1500 crores. In addition as advocated in several mid year reviews not only is export subsidies being reduced, but the number of commerce ministry foreign offices are being cut from 39 to 16 and the staff from 109 to 56. It is expected that this is only the start of the cuts in the liberal import policy being forced on the government, not as a result of its working or non working, but because of scarce foreign exchanges. The other problem with the 3 year import export policy is administrative. The 3 elements of the policy are pulling in 3 different directions: one department of government decides what should be the physical controls (licenses); another department decides on the degree of fiscal controls (excise and customs): and another wing of government decides on the norms for domestic and foreign investment. It will take sometime to develop a coordinated integrated policy out of these three strands, and until that is done, the objective of globalisation of our industry and the limited one of export expansion will only be partially attained.

In regard to the volume and direction of our foreign trade, the depreciation of the Rupee has serious effects. The Rupee has depreciated during 1985-88 by 76.1 per cent against the yen, 64.4 per cent against the Deutsch Mark, 51.4 per cent against the pound sterling and 20 per cent against the US dollar, as the

dollar itself has been depreciating against other currencies. During 1988-89 the rupee weakened by 9.8 per cent against the US dollar, by 8.7 per cent against the pound sterling and by 19.0 per cent against the Deutsch Mark but strengthened by 6.9 per cent against the yen. In other words, the overall depreciation of the Rupee during the period has been 40 per cent plus another 14 per cent in 1989. What is the effect of this depreciation of the Rupee? In theory, it should promote exports as exporters can earn more with their foreign sales or reduce the price of their exports and improve their competitive position. But given the fact that 40 per cent of our exports are under the international agreements like textiles, sugar, coffee and rubber, or are re-exports as gems, jewellery, cashew and even some engineering goods, and a further 20 per cent of exports are with the rupee trade area (USSR and East Europe), it is only a minor part of our exports, not exceeding 40 per cent, which the depreciating rupee can influence: it cannot increase our exports beyond a limited point or make them more competitive.; This may explain why our exports in the last 3 years have increased at 10 per cent per annum in volume terms and an annual 2.5 per cent in SDR terms. Further, because of the pull of the domestic market which makes our supplies relatively inelastic, the depreciating rupee will not push up exports very much. On the other hand, our import demand being large (about 50 per cent more than our exports) and on major items like capital goods and POL being inelastic, their cost multipliers with the depreciating rupee. For instance the large imports of automobile components, ancillaries and

electronic goods from Japan involve our importers paying anything upto 80 per cent more in rupees than they did before the depreciation. The second largest trade deficit is with EEC countries (which will be quantified later) against which the rupee depreciated most after Japan. Similarly the burden of the debts servicing and interest payments increase as the rupee depreciates. For instance we have repaid IMF only half what we borrowed in terms of SDR, but more than what we borrowed in Rupee terms. This acts in a kind of vicious circle. The increasing burden of the import costs widens the trade deficit and that of the balance of payments, which we meet through increased foreign borrowings which in turn increases the foreign debt burden both absolutely and more seriously in rupee terms. This means that to attain a viable external sector along with increased production, price stability and not further increasing our Balance of Payments deficit, the rupee should be prevented from further depreciating in 1990-91.

At this point a brief comment on the probable causes for the steady and continuous depreciation of the Rupee may be briefly explored, as a means of arresting or slowing its further depreciation in the current year. One factor in the Rupee depreciation scenario is related to the basket of some 12 currencies which forms the base for the exchange value of the rupee. The basket was meant to replace the link with the pound sterling and later with the US dollar, and the depreciation and fluctuation to which they were continually subject. Now the use of the basket to determine the exchange value of the Rupee has

meant that the various forces such as capital flows, hot money movements, speculative transfers, the massive shifts in domestic monetary policies to achieve exchange rate stability a la the Louvre Agreement, etc characterising each of the 12 basket currencies affects the Rupee exchange value, and in part explains its frequent changes and continuous depreciation. Some of the changes are needed to reflect interest differentials between countries, differences in income elasticities of our exports and imports, differences in the countries tradable goods, and differences in India's external environment including the external indebtedness (V.K.Bhalla 1990). On the depreciation of the rupee, the second factor - the country's balance of trade and balance of Current Account come into play. Both have been heavily negative for every year of the 80s: the steady depreciation of the rupee during this period reflects this continuing trade and balance of payment imbalance. In particular according to the Economic Survey 1989-90 the balance of trade deficit with OECD countries which was 44 per cent in 1989-81 increased to 67 per cent in 1988-89, causing a steady degree of depreciation against these currencies. To bring about a certain degree of stability in the exchange rate of the Rupee and reduce its extreme volatility, there is, therefore, need for stable and sustainable macro economic policies which would help the balance of trade and balance of current account to be brought into equilibrium, and along with occasional RBI interventions, prevent major misalignments. As far as the external causal factor is concerned, the rupee's depreciation reflects the depreciation of the majority of the currencies in the basket -

the yen and Deutsch Mark being the exception. As the sources of instability among the other currencies by mutual agreement among the Big 7 typified by the Louvre Accord which aimed at stable exchange rates, the Rupee's relative depreciation that may persist will be in step with that of the other basket currencies (except the two just referred to) and so will not be an unique Indian Rupee problem.

In the foreign trade area, the serious disagreement with the United States in applying the Omnibus Trade and Competitiveness Act of 1988 reported in the last Mid Year Review is spilling over into 1990-91. Under the Act, the US Trade Representative (USTR) under article "Super 301" identifies areas which USTR regards as discriminating against the US trade and under "Special 301" names countries denying adequate and efficient protection to US intellectual property rights. India has been named under both articles as a)restricting the entry of US capital through the FERA legislation, limiting foreign equity to 40 per cent as well as the obligation for the foreign firms to use locally produced materials rather than import them from abroad: b) maintaining a monopoly of insurance business by the public sector, preventing US insurance companies from operating in the country: and c)denying adequate protection to US intellectual property rights. On this last which is the article "special 301", eight countries have been identified - India, Brazil, Mexico, China, South Korea, Saudi Arabia, Taiwan and Thailand and placed under the "priority watch" list. In addition on grounds that the protection granted

to US intellectual property rights such as trade marks and patents is inadequate, 17 countries have been placed under a "watch list". On November 1, 1989, the USTR transferred 3 countries - Saudi Arabia, South Korea and Taiwan from the "priority watch" list to the "watch list". A deadline was set for India to conform to the USTR demands by June 15, 1990 or face retaliating actions in the form of high tariff charges on Indian exports to the US and even banning of some items. But when the deadline approached, the US government declared that it will wait till the GaTT Uruguay round is over, before taking action. India has made certain changes in FERA by replacing the concept of equity by that of foreign interests, that is, preference shares in closely held companies. It has also relaxed the 40 per cent limit for FERA firms using sophisticated technology on being directed at exports. On insurance, even after nationalisation, reinsurance by foreign countries was allowed for sometime but because of the heavy foreign exchange outgo, it was discontinued. On intellectual property rights, there has been a discussion within the country on the nature and adequacy of the Indian legislation on this for more than 5 years. The government has taken the stand that all these are matters of internal concern involving its development policies. The US's latest link of this controversy with the GATT negotiations has given rise to the feeling that Super 301 and Special 301 are being used to force India to make concessions to meet US demands and desires in the Uruguay round of trade negotiations.

The conclusions of the Economic Survey 1989-90 on the country's external trade relations refer to the rather weak foundations for the Eighth Plan of the overall external payments situation further clouded by a murky global economic situation, which the dead locked Uruguay round and the threat of super 301 represent. In this situation there is little hope of a rapid improvement in the trade or balance of payments from 1990-91 unless the advise is acted upon "to tailor tax and trade policy in a manner which discourages import intensive industrialisation and fosters economically efficient import substitution." Neither the budget for 1990-91 as approved by Parliament, nor the new industrial policy cum the three year import export policy promulagated in the first quarter of the year seem to be acting on this advise. Further there is only passing reference to the fiscal balance which hold one of the keys to a stable economy with viable external trade relations. The budget makes an effort but the fiscal imbalance which feeds the Balance of Payments pressure continues to be serious and can be corrected, as shown in the fiscal section, only by hard decision and non populist actions for reducing the source of the imbalance. In 1990-91 only the first steps have been taken in this regard: it must be followed up during the year, so that in the following year there can be strong export growth, little or no import intensive industrialisation, expanded import substitution and a fiscal balance similar to that of the 70s.

All these facets of the economy review so far are aimed at generating employment as one means of improving the living levels of the people, through a reduction in levels of poverty and inequality, and it is to these issues that we now turn.

Employment and Condition of Labour

Unlike the lack of employment data either on a trend basis or for the current and future years in the official ministry of labour's Annual Report which keep repeating year after year the same statistics derived from the 1981 census and the labour force projections of the Seventh Plan document, there is available this year, three sources of documentation on Employment, current and prospective: first the Planning Commission's working paper on employment, second the interim report of the Economic Advisory Council (EAC) on an employment oriented strategy for 1990s and third the documents on the Right to Work. There are a number of issues thrown up by the first two documents.

First, the Approach Paper clearly sets forth that the basic objective of the Eighth Plan is "to ensure that the needs of ordinary people and the quality of their life become the central focus of planning ... (and for this) specifically the state must assume primary responsibility to generate adequate employment to all at minimum wages". The employment goal is a continuation of that of the past plans, except that in the eighth plan a)the responsibility for generating additional employment is placed upon the state and b) the employment for all has to be at minimum

wages. Second and in contrast there is agreement that the rate of economic growth and the spurt in the industrial growth in the 80s have been accompanied by a slowing of employment. As the EAC states:"the employment elasticity with respect to aggregate output has been declining. As a result even with a GDP growth rate exceeding 5 per cent per annum, employment growth has not kept pace with the growth in labour force which is estimated at around two and a half per cent per annum". In fact, it points out that the trend rate of growth of GDP for the decade of the 1980s is around 5.3 per cent per annum which is in part set forth in Table I and that the rate of industrial growth has been around 8 per cent per annum during the 80s (compared to less than 5 per cent in the 1970s)[57] as also embodied in Table XI. Growth in employment has not only not kept pace with the labour force increase, it has declined and unemployment rates have grown as the Planning Commission's working paper[58] and the table below show:

Table XXI

(A)
Growth rate of Employment (per cent)

1972-73 to 1977-78	1977-78 to 1983	1983 to 1987-88
2.8	2.2	1.51

(B)
% of Unemployed to labour force for 1983 and 1987-88

Usual status		Weekly status		Daily status
1983	2.77	1983	4.51	8.25
1987-88	3.77	1987 -88	4.80	6.09

Source:NSS (27,32, 38 & 43rd rounds and expert Committee on population projections.

The above table which is in two parts (A) & (B) shows in (A) the falling rate of employment growth from 2.82 per cent in 1972-73 to 1977-78 to 2.22 per cent during 1977-78 to 1983 and to 1.51. per cent in 1983 to 1987-88. The rural employment rate for the last period (1983 to 1987-88) was a low 0.95 per cent: the section of the table (B), shows rates of unemployment rising under usual status and weekly status, and its decline under daily status, which means a shift in the structure of unemployment from under employment to open unemployment. And that is one of important points about the above table, that it measures open unemployment which few workers - men or women - can afford, while under employment is the more general problem. Unfortunately there is no direct measure of underemployment. The data on unemployment on the daily status basis set forth in the above table is an indirect measure of all the person days of unemployment of both those openly unemployed and those under employed.

The employment magnitude facing the economy in the Eighth Plan comprises the backlog of unemployment and the increase in the labour force during the Eighth Plan. The working paper of the Planning Commission sets the backlog of the unemployed from the Seventh Plan at 28 million and the increase in the labour force at 37 million in the Eighth Plan. The backlog figure is derived from using the weekly status concept, which defines a person as unemployed if he/she has not worked even for one hour during the week, which give 16 million as fully unemployed and

from NSS rounds of 12 million as severely unemployed, which is also the adjusted data of the Employment Market Information Programme. The estimated increase in the labour force is derived from working on the conclusions of the Expert Committee on Population projections. The total number of persons requiring employment in the VIII Plan is thus 65 million (28 million plus 37 million). How is this employment to be achieved?

EAC suggests that agriculture and labour intensive manufactured exports be used as a strategy to meet the demand for employment. But the growth rate of employment in agriculture is declining drastically from 2.32 per cent in 1972-73 to 1977-78 to 1.20 per cent in 1977-78 to 1983 and even more to 0.65 per cent in 1983 to 1987-88 as the table on page 2 of its report shows. This decline goes along with a fall in the percentage of male and female workers engaged in agriculture and allied occupations, with the decline in the size of operational holdings (marginal holdings increased by 12 per cent in the 70s), and the number of cultivators declining while that of casual labourers is increasing. Here agriculture's capacity to absorb the 65 million or even a sizeable part of those needing employment in the Eighth Plan is rather slim. On labour intensive manufactured exports (being part of its suggestion that wage goods could be produced by large units and luxury goods by the labour intensive small scale sector), this proposal seems to be the opposite of that set forth in the Approach Paper, and even so, will not absorb much of those seeking employment because of the limited demand for the products of the small and village industries. In this

connection, the council makes an apparently curious suggestion for modernising and increasing the efficiency of the small sector by its installing NC/CNC machine tools. This suggestion is based probably on the fact that, as noted earlier, the small scale is not only a major user of machine tools, it is also a major producer of capital goods into which as both producer and user this shift to NC/ANC machine tools can be made. However the proposal should not involve the decline of the handloom industry and the khadi and village industries sector.

The working paper of the Planning Commission begins by pointing out that the provision of employment for 65 million workers will call for a very high rate of economic growth of 10.5 per cent, if the present trend continues of 1 per cent GDP growth is accompanied by 0.38 per cent growth in employment. So it proposes a radical restructuring of the economy by ensuring that (i)"economic growth would be mainly derived from sectors which have high observed and potential employment content, ii) within each major sector growth of commodities and lines of production with high employment intensity would be accorded high priority ..., iii) wherever possible, use of production techniques with higher employment potential per unit of capital would be encouraged --- and unnecessary increase in capital intensity would be discouraged, and iv) besides reorienting public sector investment towards employment intensive sectors and lines of production, macro economic - fiscal and credit - policies would be used for more effectively influencing private investment and decisions in favour

of the sectors and technologies with high employment potential" (pp22 & 23). I express this important programme of restructuration by proposing that the present production, consumption and distribution model be, during the Eighth (and possibly also the Ninth) Plan(s), replaced by the wage goods model.

The detailed employment generating programmes for the Eighth Plan include: a1)developing agriculture in the non green revolution states and areas and dry land farming areas, increasing irrigation in these areas where a 1 per cent increase in irrigation results in 0.38 per cent increase in employment: a2) pushing forward animal husbandry and fisheries which according to the studies can increase employment during the Eighth Plan by 61.58 million to 86 million person years: a3) thus diversified agricultural growth including high value crops like fruits, vegetables, sericulture and other cash crops, irrigation expansion and animal husbandry increase can generate in the agricultural and allied sector an employment growth rate of 2.5 per cent: b) a policy to promote non agricultural rural activities in which 22 per cent of the rural work force is engaged, including 7 per cent in manufacturing and 5 per cent in services. If this area is actively promoted similar to what is being done for khadi and village industries, there could be a 2.3 per cent increase in employment: c) in manufacturing, employment has been growing at 3.8 per cent per annum over the last 10 years. The employment trend in small and unorganised manufacturing is growing and is high. If the present

contribution of 42 per cent of value added in manufacturing and 80 per cent of the total employment of industrial sector by the small and village industry is continued, a major part of the additional output and employment in the Eighth Plan will be derived from this sector. There will have to be technological upgradation of the small sector which by increasing its productivity may reduce employment by 0.4 per cent. A 4 per cent employment growth can be attained by making the small sector grow at 10 per cent and the large sector at 5 per cent. In the small sector, some 29 industries have been identified by the Planning Commission as having high employment potential and low ICOR. Among other activities, road construction and housing meet basic needs and have a high employment potential. Housing is largely in the private sector and suitable policy changes are suggested to encourage investment in this sector. On roads, even if the Seventh Plan target was fulfilled (which is doubtful), 31 per cent of the villages in the population group 1000 to 1500 and 10 per cent of villages of larger size will still remain unconnected. It is the finding that a programme to connect all these villages by road would result in construction of 8 lakh kilometers of roads which will create 23.8 million person years of employment. Similarly if the 1.48 lakh primary schools, which according to the Fifth All India Education survey have only one teacher, are given 2 more teachers each that would create 3 lakh jobs, and if the rural health infrastructure is to be fully staffed, an additional 2.69 lakh paramedics and doctors would be needed. But the services sector is not on the whole employment generating, as a GDP growth of 6 per cent in the 80s resulted in

employment increase of only 2.5 per cent in the services. There is also the problem of over manning of public sector units and their rising emoluments.

The overall conclusion is that to get anywhere near the target of employing 65 million persons in the eighth plan, employment will have to be consciously built into the development strategy so that in all sectors reviewed above, growth is mainly derived from sectors and sub sectors with high employment intensity. Even so, if the economic structure is not changed in the direction of a wage goods model, the employment goal will have to be stretched beyond the eighth Plan.

Against this backdrop, the government's commitment of the right to work as part of the Rights set forth in the constitution parallel to the right to property on which so much jurisprudence has been expanded, involves accepting the justiciable nature of the right to work and some kind of work guarantee programme for the unemployed and under employed as set forth earlier. The right to work broadly involves 3 groups in the economy: a)those who are employed full time in agriculture and allied occupations including irrigation, in industry (mining, manufactures and electricity) and in the services, banking and transportation. Here the problems of the right to work is the enforcement of a minimum wage particularly for those in agriculture and for the right to organise themselves and the denial of arbitrary termination of employment by the employer - in the public and

private sectors: b) the second group covers those who are able and willing to work but have no employment or are under employed - whether in the formal or informal sector - that is those employed earning incomes far below the family subsistance minimum. For this group, the Planning Commission's working paper proposes an employment guarantee scheme, "which may be of a substantial magnitude to begin with, but would be expected to get smaller over the years, as the growth process generates stable employment at a faster rate". To operationalise this proposal, the present relief programmes, NREP, RLEGP, DWARCA, TRYSEM and even IRDP should be merged, their resources doubled to Rs.6000 crores, together with a bank credit of Rs.4000 crores per annum for permanent asset creating activities so that everyone in this group is guaranteed work for 265 days in a year at the legal minimum wages for the state or region concerned: and c) the third group is the bottom (first decile) of the population who are not covered by any of the above relief or poverty alleviation schemes and the aged, the sick, and the disabled. For this group, it is net work which has to be provided except for some of the disabled, but some sort of social security provision on a permanent basis, which might involve a kind of social insurance of Rs.3000 crores per annum at current prices.

All this involves a net annual addition of Rs.6000 crores, plus bank credit over the current annual employment relief expenditure of Rs.3000 crores.

Where will this money come from?

The answer is that this Right to Work expenditure and social security provision should be the first charge on the budget, and all else will have to be adjusted to the residual resources available to the state and economy. The sums mentioned above are the same as the current year's defence budget. When it is defence, this question does not arise: it should be the same with regard to the work provisions and social security funding which the Right to Work involves.

There are resources available both for financing the Right to Work and for reducing the fiscal deficit which are not being used by the state as noted earlier.

First, the present employment cess on the income tax should be made permanent: it should also be levied on the corporation tax. Second, the administrative services of the states and the union governments can be drastically pruned, saving some Rs.3000 to Rs.4000 crores per annum. Third, other non development expenditures can be reduced - defence services, subsidies, etc. saving an equal amount. Fourth, some of the large capital guzzling projects should be reviewed and cut back. In the public sector of both the union and the states - the loss making enterprises can be closed or sold, and some of large capital intensive projects reduced, saving an equivalent amount to that on administration. Finally, there are large resources in the underground economy which have been officially estimated at a third of the National income of the country but which I estimate

at 40 per cent. There are also the country's funds which have been secretly invested in foreign tax havens, amounting to Rs.3000-4000 crores per annum. If through a system penal action and incentives, those are brought above ground, and into the tax net, there would be an annual Rs.3000-4000 additional revenue accruing to the state. Over time, the scope of this sector will decline, as the economy increasingly generates gainful employment. The funds so released can be invested in further employment generating agricultural and wage goods producing industrial activities, and also finance the needed expansion in the infrastructural sector.

The Right to Work does have serious financial implications. But the funds needed are available and must be made available to make the Right to Work a reality or in the alternative it would be better to postpone the constitutional amendment bill until. There is agreement on the above financial implications and fiscal means of meeting them.

On the problem of educated employment, on which the employment exchanges show the educated job seekers as exceeding 3.2 million out of the 32 million total in December 1989, a study by the department of Science and Technology provides a more meaningful, disaggregated, if disturbing picture. It reports that agricultural scientists are in surplus by 20 per cent and will increase to 22 per cent in 1990-91 but decline to 12 per cent by 2000-2001: there is a shortage of veterinary scientists

which will increase to 9 per cent at the end of the Eighth Plan in 1994-95 to 18 per cent in 2000-2001: in engineering and technology there is a 3 per cent surplus in 1990-91 which will increase to 8 per cent in 2000-01: in medical manpower there was a shortage of doctors by 18 per cent in 1980-81, which increased to 20 per cent in 1990-91, but will decline to 17 per cent at the end of the eighth plan and 12 per cent by the end of the Ninth Plan: the shortage of nurses is a high 39 per cent in 1990-91, rising to 50 per cent at the end of the Ninth Plan. Similar shortages are anticipated in health educators, lab technicians, mid wives, health assistants and workers and in new areas like electronics, telecom and in new technologies in food processing, textile engineering, designing, printing and computer science: by 2001 there will be a shortage of 38,500 in the medical and nursing group, 52,000 in engineering and technology, a surplus of 137,002 in the agricultural and veterinary group and 303,000 in general sciences: for the eighth plan there will be a surplus of 342,000 in general sciences, 28,000 in agricultural sciences, and shortage of 3000 in engineering and technology and 25,5000 in the medical and veterinary groups. There is need for a further disaggregated study of scientific manpower in every state, which can be undertaken by the State Council of Higher Education which has just been set up in each state on the basis of which the education and training system could be adjusted.

An ILO study on women's employment reports that women continue to be marginal in the labour force, and always form only

the reserve labour force. More than 90 per cent of them are wage labourers in the unorganised sector. Driven by poverty, homeless, unemployment and destitution, they find refuge in low paid (sub standard) sector of wage labour. Agriculture employs 25 per cent of them, the ratio of women in the unorganised sector has gone up from 94 to 96 per cent in the decade 1971-81. In manufacturing only 19 per cent of workers are women and in services 16 per cent: only 2.12 per cent of rural women adopted a profession: women industrialists dropped from 1.47 per cent in 1971 to 0.61 per cent in 1981: as agricultural labourers, their share was relatively constant being 8.61 per cent in 1961, 7.33 per cent in 1971 and 8.01 per cent in 1981, but as cultivators their share dipped from 18.41 per cent in 1961 to 5.91 per cent in 1981, indicating that after getting education, they move into other occupations, though lack of skills and training plus the decline of traditional handicrafts and cottage industries - contrary to what EAC and even the working paper of the Planning Commission state - have denied them alternative job opportunities. Immobility of labour is one of their handicaps, forcing them to accept low paying jobs in the unorganised sector; in mines their share fell from 16 per cent in 1961 to 11 per cent in 1978, in factories from 11 per cent in 1961 to 10 per cent in 1981: their pattern of employment is lopsided: in textiles, they are employed in winding and reeling, in jute industry in sowing, in silk industry in winding, in mines in the open working, in coal mining in wagon loading, in cleaning, brick carrying and pellet making: in wages they are paid lower than men because of cultural attitudes. These show the task ahead for labour

legislation, women's organisations and trade unions.

Acting on the recommendation of the 29th session of the Indian Labour Conference, the government withdrew the Trade Union and Industrial Disputes (Amendment) Bill which had been introduced in 1988 in the Rajya Sabha, and has arranged for its replacement by a new Trade Union and Industrial Relations Act introduced in parliament on the basis of the tripartite committee draft which takes account of the major changes that have taken place in the industrial and labour scene, defines more adequately 'work man' and 'industry', in regard to workers participation in management on which the conference had recommended workers participation at the shop floor and plant levels to be equal to management and to be 25 per cent at the board level and proposes measures to help maintain industrial peace and harmony which keep up with the tempo of economic growth.

The Ministry of Labour reports[59] that overall industrial relations improved in 1989. It reports that there were 831 strikes in which 6.34 million mandays were lost and 279 lock units in which 10.13 million mandays were lost in January to October 1989 compared to 1304 strikes in which 12.53 million mandays were lost and 441 lock outs in which 21.42 million mandays were lost in 1988. One of the trade unions leaders has however pointed that these figures show just the tip of the iceberg under which there is much more production and productivity lost by workers and management actions which are not

quantified.

The union government announced in May [60] the setting up of a forum for unorganised labour made up of trade unions and labour organisations to work for workers in the unorganised sector and for casual labourers. This is to be followed by the formation of a national commission for the welfare of unorganised labour, particularly farm labour, construction workers and bonded labourers. There is also a government proposal made in March 1990 for legislation on farm labourers to guarantee employment throughout the year, ensure payment of proper wages, provident fund, health and education benefits. If even one quarter of these proposals are carried out, it would make a serious contribution to the employment and conditions of work of the most neglected section of the labour force.

Poverty and Inequality

Now we turn to the issue of what all the various facets of the economy analysed at this mid year point, including the employment perspectives, mean for the only objective of all planning and development - which is to raise the standard of living of the people, reduce, if not eliminate, poverty and move to a less unequal society.

Taking first the poverty alleviation objective, there is need to know, to start with, what is the dimension of poverty that we are dealing with - who are the poor , how many are they,

where do they live and what do they do. For this, we are once more indebted to the World Bank which has used some of our raw data to work up a quantitative estimate of poverty for as recent as 1988. The methodology it has used on this analysis[61] is the Planning Commission's per capita expenditure for an individual's calorie intake and necessary non food items. It starts with the Planning Commission's poverty lines of Rs.49.09 per capita per month for rural areas and Rs.56.645 per capita per month for urban areas in 1973/74 and applies a deflator series developed by NSS and the Indian Statistical Institute (Minhas 1987 a and b) to arrive at poverty lines in 1977-78 of Rs.55.2 in rural areas and Rs.68.6 in urban areas in 1977-78 and Rs.89.0 in rural and Rs.111.2 in urban areas for 1983 and those for 1988. The ultra poor, whom we call the very very poor and the destitutes are estimated as those who spend 75 per cent or less of the poverty line expenditure indicated above. Using these parameters, the state of poverty in the country over the 70s and 80s, can be put together as in the table below:

Table XXII

Year	% of Poor			Absolute Numbers (million)			% of Ultra Poor			Absolute Numbers Ultra Poor(million)	
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
1970	53.0	45.5	52.4	235	50.5	287	20.4	28.4	30.0	134.6	28.4
1983	44.9	36.4		252	64.6	316.7	20.4	15.8		123.1	31.4
1988	41.7	33.6	40	254	70.7	322	20.4	32.9	19.0	123.6	32.9

Source: World Bank 1989

The data above taken from the World Bank's India study may be set along side of the data on poverty in India set forth in the World Bank's World Development Report[62] (which getting away from the neo classical heritage of explaining the developing countries problems in terms of free markets, free private enterprise, and outward orientation, and adjustments involving cuts in welfare expenditures) - devotes this issue to the problem of poverty. It begins with admitting that the 50s and 60s saw growth as the primary means of reducing poverty and quotes the first three plans of the Planning Commission as evidence, and that it was in 1970s that direct provision of health, nutrition and education was seen as the means of alleviating poverty: and that by the 80s this two part strategy to deal with poverty, namely, use of the poor's own asset, labour, and provision of basic social services, was generally recognised. Even so, it warns that many of the poor - the sick, the old, those who are in the first decile will continue to experience severe deprivation - which has been referred to earlier, under the sub sector Right to Work. Taking 1985 as the bench mark, it states (table 2.1) that 51 per cent of the population, that is 520 million, are poor, which is over a third of the world's poor of 1,116 million, and which is higher than the 346.6 million poor in 1983, being 40 per cent of the total population set forth in the above table, as the World Development report has a higher poverty line than that used in the Table XXII. Similarly while the extremely poor are shown in table XXII to be 156.5 million in 1988, the Report places them at 250 million, again over a third of the world's extremely poor of 633 million. The Report also provides data for rural-urban

poverty in the 80s (table 2.2) which are higher than those in Table XXII according to which 79 per cent of the rural population are poor in India, which should be compared with an above 70 percentage level in 4 other Asian countries. In this connection, the Report asks the question whether family size determined living standards or is it the other way around, and makes an honest, if disturbing, response that "the decision to have many children can be a sensible response to poverty". The report in table 3.2 points out that over a 10-12 year period progress has been made in the reduction of poverty and gives data on this in regard to 11 countries. For India in 11 years (1972-83), the poverty percentage declined from 54 per cent to 43 per cent but the absolute number increased from 311.4 million to 315.0 million, which it points out is a creditable cut of 11 percentage points in 11 years, but which population increase nullified, and which places India in the 54th rank among 121 countries. Taking a shorter period of 6 years, the Report in table 3.3 shows an even more encouraging attainment, of the percentage of the poor, falling from 50 in 1977 to 43 in 1983 and in absolutee numbers from 324.9 million in 1977 to 315.0 million in 1983, which is also near to what Table XXII records. The Report concludes in chapter 9 by pointing out that India's poverty percentage could fall from 55.0 per cent in 1988 by more than half to 25.4 per cent in 2000, reducing the number of poor from 420 million to 255 million during that period, if the per capita GDP of 3 per cent of the latter half of the 80s and all that made it possible in the way of saving and internal policy reforms are maintained.

The World Development Report, however, concludes with the warning "If investment remains squeezed by low domestic savings rates and external borrowings, India's growth is unlikely to exceed 2 per cent per capita a year over the decade (of the 90s). Such slippage would imply a poverty count of 370 million people by 2000, ending much of the potential gain". Here it should be pointed out that mere growth as a remedy for poverty is not India's experience, and has been cast aside in the Planning Commission's Approach to the Eighth Plan and in this note. The Bank forecast is that under the best conditions, we will enter the twenty first century with 255 million poor, and the worst condition with 370 million living in poverty - which negates the over optimistic projections of the VII Plan that the percentage[63] of poor will be 25.0 per cent at the end of the VII Plan, 10 per cent by the end of the VIII Plan, and 5 per ccent at the end of the IX Plan.

The World Bank study on poverty in India confirms its earlier analysis in 1988 referred to in last year's Mid Year Review and throws new light on the regional concentration of poverty in the country in the central and eastern region which have near 55 per cent of the country's population and where the percentage of people living in poverty increased from 56 per cent in 1970 to 60 per cent in 1988, with the percentage of the extremely poor worsening even more from 60 per cent to 65 per cent in that period. It also reports that poverty in the south declined, mainly due to the decline in Kerala and Tamil Nadu.

The decline in Tamil Nadu is statistical from 50 per cent to 46 per cent, with no decline in absolute numbers. The study also refers to the increase in the share of the urban poor up from 18 per cent in 1970 to 22 per cent in 1988, from 50.5 million to 70.1 million as Table XXII records. Urban poverty has still to be taken seriously and countered in the country, where most attention is on rural poverty. Another sectoral issue highlighted is that one third of all the poor are from the scheduled tribes and castes and near 40 per cent in the case of the extremely poor, which reinforces the preferential treatment in employment and anti poverty programmes that is and should be given to them. Wage dependent families made up 46 per cent of the rural poor in 1988, up from 44 per cent in 1977/78. 64 per cent of agricultural labour households were below the poverty line as were 39 per cent of the self employed. While the real earnings of labour market participants rose in many areas between 1970 and 1985, the rural labour market is mainly a market for casual labourers hired on a daily basis, discriminates against such women as can escape from their daily domestic work, who are confined to weeding, transplanting and head loading at 20 to 40 per cent below men's wages and maintains it members at a low level education/literacy, nutrition and health. The major impact of rural under employment discussed in the previous sections falls on this group of wage dependent casual labourers and the self employed and are not reflected in the poverty data - as shown in the World Bank country study on India.

There is a flurry of estimates on poverty in the country today.[64] The minister of state for Planning informed parliament that using the households consumer expenditure of 38th round and 43rd rounds of NSS, the poverty level has declined from 37.4 per cent in 1983-84 and to 29.2 per cent in 1987-88 (which are well below the World Bank estimates recorded in Table XXII), and that it is expected to decline further to 25.8 per cent in 1989-90, which is the terminal year of the VII Plan, and is the base for the VIII Plan's anti poverty effort. This is also the data recorded in the Annual Report of the Ministry of Programme Implementation that the poverty ratio - both rural and urban - declined during the VII Plan from 36.9 per cent in 1984-85 to 25.8 per cent in 1989-90, from 272.7 millions to 210.8 millions during that period.[65] The Annual Report for 1989-90 of the Department of Rural Development states that the rural poverty ratio declined from 49 per cent in 1981 to 37 per cent in 1986, to 28.2 per cent in 1990 and will be 10 per cent in the VIII Plan 1994-95.[66] These three governmental statements on the poverty percentages are derived from CSO's 38th and 43rd rounds and show poverty at a much lower level compared to the World Bank estimates, particularly for recent years - at 29.2 per cent in 1987-88 according to the Minister for Planning, at 25.8 per cent in 1989-90 according to the Ministry of Programme and Implementation, and at 28.2 per cent for 1990 according to the Department of Rural Development, while the World Bank's country study of India places poverty at 40 per cent in 1988 and its World Development Report at 43 per cent in 1983. These differences are due to the methodologies used. In the case of the

Indian data (that of the three ministries), a detailed critique was made of the methodology used in relation to a)the poverty line selected, b) the price deflator chosen, and c)the distribution base employed for computing the head count ratio (that is, the Planning Commission's adjusted expenditure distribution being smaller than those corresponding to the NSS distribution). It was shown that all three elements in the methodology reduced the head count (poverty) ratio presented by the Planning Commission and the Indian government.[67] In the case of the World Bank the deflators used adjustments reflecting cross sectional differences in force, and after the 43rd round of NSS using the rate of GDP growth to derive past 1987 figures on the assumption that the growth is distribution neutral,[68] (which I have queried earlier). Therefore it is indicated that we start the current year 1990-91, which is also the start of the Eighth Plan with a poverty percentage range of 25-40, with the rural between 28 to 42 and urban between 19 to 33). In terms of numbers, the poor are 210 million according to the Planning Commission based on 43rd round of NSS and 322 million according to World Bank estimation. No attempt is made here to reconcile the difference of over 100 million between the two estimates. The very very poor are over 150 million in both estimates. What is common to both the Indian and World Bank estimates is that the Eighth Plan has to deal with a large number people living in poverty, of whom a sizeable percentage are destitutes, and that the trend of the 80s is for a decline in the poverty percentage, which should be carried into this year and the rest of the eighth Plan.

This anti poverty effort in 1990-91 has two dimensions. First the intensification of investment in agriculture, rural areas and cottage and village industries and SSI should counter the falling rate of labour absorption in them which have characterised the VII Plan along with the declining employment elasticities. This with the decentralisation of plan formulation and execution down to the panchayat union level should make the planning and execution of the larger investments made available to agriculture, animal husbandry, irrigation, fisheries and small industries location specific. As a result the additional percentage of people who can earn the family income above the limit of Rs.6400 per annum should double during the VIII Plan.

Second, there are the beneficiary oriented programmes: a)Jawahar Rozgar Yojana b) IRDP and TRYSEM and c)the Minimum Needs Programme. The Department of Rural Development reports that under NREP in the years 1985 - 1989 147.76 crore mandays of employment in RLEGP 115.42 crore mandays of employment and in the Jawahar Rozgar Yojana into which they have been combined in 1989-90 145.56 crores mandays of employment were generated in the first 8 months. If these conditions of reaching and exceeding the employment generation targets continues in 1990-91, there should be a contribution to poverty reduction. The evaluation of these programmes shows that 44 per cent were agricultural labourers, of whom 80 per cent were SC and ST on the one hand, and the lack of a shelf of projects and non participation of beneficiares in planning and selection of projects on the other hand. There was an impressive array of assets created during the

four years comprising 7 lakh hectares of social forestry; 220 crores of trees planted, 25000 tanks constructed, 2 lakh hectares of minor irrigation, 1.3 lakh drinking water wells and ponds built, 2 lakh km of rural roads constructed and 1.4 lakh school buildings and balvadis built under NREP and a similar inventory of 5 lakh houses under Indira Awas Yojana, 2.0 lakh hectares of soil conservation plus social forestry and trees planted, rural sanitation and school building, minor irrigation and wells under RLEGP. What is not known is how much of these assets are lasting and have not been lost or washed away in the rains, and what provisions are made for the upkeep and maintenance of these valuable assets. Under IRDP, 148.26 lakh families were assisted with Rs.2388.81 crores plus Rs.4000 credit. 45 per cent of the assisted families are scheduled castes and tribes. In the women's programme of DWCRA, in the first 4 years of the VII Plan, 22,400 groups with membership of 3.80 lakh women were assisted in various forms of self employment. Under TRYSEM over 7000 youth have been trained in various self employment skills like sericulture, air conditioning, TV repairs, horticulture, school uniforms etc and the trainees provided with tools and funds for construction of workshed etc. The evaluation of the IRDP is that 39 per cent of the assisted belong to the destitutes and very very poor group, 82 per cent were able to acquire assets, and the assets generated more than Rs.2000 crore annual income for 40 per cent of participants, between Rs.1000-2000 for 19 per cent, and Rs.500-1000 for 12 per cent. On the one hand, there are still about 20 per cent of the programme beneficiaries

who belong to the non poor groups, and after care and government support was not available to 53 per cent of cases out of 76 per cent cases needing such support. The World Bank's study on India, using the Concurrent Evaluation Survey (CES) results over the past 4 years has compiled the following table:

Table XXIII

Major States	% Invest Intact/c	% Intact & some re-payment of credit	% Intact & No credit overdue	% Eligible Benefit/c	% Eligible & crossed poverty line/c	% Eligible & crossed poverty line & re-paid some credit	x% Eligible & crossed poverty line & No credit overdue
Andhra Pradesh	80	65	34	100	9	7	1
Arunachal Pradesh	N.a.	3	38	N.A.	4	0	4
Assam	58	41	6	76	9	7	2
Bihar	78	62	18	94	3	2	1
Gujarat	89	79	43	100	4	4	0
Haryana	58	40	15	76	0	0	0
Himachal Pradesh	79	73	45	99	29	27	3
Jammu & Kashmir	87	75	50	94	19	19	0
Karnakata	77	48	25	98	4	3	1
Kerala	61	69	19	80	5	5	0
Madhya Pradesh	76	60	26	97	6	5	0
Maharashtra	70	59	30	94	10	9	1
Orissa	65	43	19	100	7	5	2
Punjab	68	74	57	91	18	18	0
Rajasthan	44	35	15	79	9	8	1
Tamil Nadu	70	49	28	95	3	3	0
Uttar Pradesh	88	63	41	91	5	4	1
West Bengal	86	75	23	90	8	6	1
Other states	52	25	28	90	8	3	5
National Average	71	56	29	92	7	6	1

Source:CES

The above table shows an encouraging trend in the attainment of targets under various heads. What is needed is a longer term perspective on the effects of IRDP in lifting people above the poverty line and the Eighth Plan should provide this.

On this record, IRDP should be used in the Eighth Plan to help over a crore of rural families to become self reliant and earn the Rs.6400 and above family income. The urban counter part of JRY and IRDP is the Nehru Rozgar Yojana which has just been launched this year, with Rs.113 crores to fund micro enterprises, wage employment and employment through housing and urban shelter upgrading. What is needed here is for the Nehru Rozgar Yojana to enter the informal market and help supplement the sub standard earnings of the majority of the urban workers and their families. The third beneficiary oriented programme to combat poverty is the Minimum Needs Programme which should in the VIII Plan aim at providing (a) all villages particularly the remaining 6000 villages with potable drinking water, (b) some 2.5 lakh village sanitation complexes consisting of sanitary latrines, hand pumps and bio gas plants, (c) complete the universal immunisation programme, (d) improve the health delivery system and in the case of women, infants and young children change over to a full fledged outreach based ICDS, (e) bring the 60 million children of primary school age out of school into the school, reduce the dropout rate from 60 per cent to 20-30 per cent, make literate 60 million out of the 80 million illiterate adults (age from 15 to 45), (f) improve rural housing and shelter, and (g) build roads to link about one third of the 1.5 lakh villages which have no roads. Thus the programme of agricultural

and rural development and the expansion of small industry, with these beneficiary oriented programmes should in 1990-91 contribute to a 2-3 per cent reduction in poverty, and achieve a target of reduction of 15 percentage points.

The problem of inequality - which is the coexistence of a minority of well to do persons who are not controlled by any line of affluence as recently proposed whose incomes seem to have only the sky as the limit, and a majority of ill to do, living below or at or just above the poverty lines referred to earlier, needs attention. Does economic growth call for inequality of incomes and assets? The Kuznetsivian hypothesis states that there is a conflict between growth and equality, that the initial stages of economic growth will involve inequality of incomes worsening and growth immeserising. The World Bank refers to the "Kuznets curve" which points an inverted "U" relationship between inequality and average income. Our Planning Commission in its middle stages accepted this Kuznetsivian hypothesis, and stated that "some degree of inequality in income is an essential part of the structure of incentives or savings and skills and is essential in a growing economy".[69] The World Bank in the World Development Report 1990 comes right out and says that there is no empirical evidence either to "Kuznets or the immiserizing growth hypothesis". In the low income countries inequality constantly improve (contrary to the Kuznets hypothesis) and there is no case in which the effect of growth is offset by changes in inequality. It has drawn up a table (table 3.7) in which the long term (10 to

24 years) growth for 10 countries and the short term (1 to 10 years) growth for 15 countries juxtaposes the observed reduction in poverty percentages and the annual mean growth of income and expenditure, and concludes that by and large economic growth reduces poverty and that economic decline increases it. India which appears in both categories shows in the first group with a 11 years length (1977-83), poverty falling by 11 percentage points, and annual mean income growth by 1 per cent: in the second category India with a 6 year length (1977-83), shows a reduction of 7 percentage points in poverty to 0.8 per cent annual growth in mean income. And its conclusion is that economic growth and changes in inequality are not instruments of policy, they were consequence of policies.[70]

What are these policies that promote both growth and inequality? They are transfers, ownership of assets and returns to assets.

On transfers, as a means of reducing inequality, apart from direct taxation, Indian experience has been limited to food subsidies and other such transfers which reach the poor such as those on travel, kerosene, biogas and others. Such transfers have to be large to reduce inequality sensibly. There was one attempt at a direct transfer when in the Draft Fifth Five Year Plan (1974-79) it was proposed to transfer 5 per cent of income or expenditure from the top 30 per cent to the bottom 30 per cent with the admonitory advise that "our proposed goal of removal of poverty requires that the growth strategy must seek not only a

high rate of growth than observed in the past but also reduced inequality".[71] It is important to note here that the programme of removal of poverty is shown to be conditional on a programme to reduce inequalities.

On the assets ownership, starting with land ownership as the most pervasive form of asset ownership, the situation on the eve of the Eighth Plan is truly disastrous. According to the latest available estimates established by the previous Planning Commission in 1989[72], two thirds of rural households own less than 1 hectare of land or no land. Half of them own less than half an hectare. Households which had an asset holding of less than Rs.6000 were getting between 67 and 90 per cent of their credit from money lenders, whereas housholds with asset holdings above Rs.5 lakhs secured 95 per cent of their credit from banks and cooperative societies. The Reserve Bank of India's All India Debt and Investment Survey[73] show that the poorest 10 per cent in rural areas owned 0.0 per cent of total assets in 1971 and 0.4 per cent in 1981: and in urban areas owned 0.1 per cent of all urban assets in 1981 (the 1971 survey did not cover urban areas): while the top 10 per cent in rural areas owned 50.7 per cent of all rural assets in 1971 and 49.5 per cent in 1981: in urban areas the top 10 per cent owned 58.4 per cent of all urban assets in 1981. The estimated surplus land (surplus above the legislated ceilings in each state) is in dispute. The Department of Rural Development states that it is 5.32 million acres, whereas the 26th round of NSS shows 57.81 million acres to be

owned in holdings above 30 acres. As at March 31, 1989, the area taken over by government was reported as 2.10 million acres and the area distributed was 1.29 million acres.[74] The latest Annual Report of the Department (1989-90) states that in the last year this has been increased to 1.8 million hectares distributed among 42 lakhs beneficiaries. Correcting this skewed land ownership is essential to lessening inequalities. The Approach Paper to the Eighth Plan pledges that 'steps will be initiated to review and reformulate the land legislations to ensure effective implementation. The inclusion of land reform laws in the Ninth Schedule of the Constitution is a step in this direction. Land reform should encompass various aspects of land relationships, such as tenancy, homesteads, consolidation of holdings, land ceiling and distribution of surplus land, including land at the disposal of the poor. The land so provided to the poor must be developed to make it fit for cultivation. In this regard the latest report of the Department of Rural Development reports the encouraging fact that 77 lakh tenants have acquired ownership of about 56 lakh hectares of land. The gap between even the limited land reported as surplus and the land taken over by government of more than 3 million hectares is due to lands being the subject of judicial intervention. Now that the Parliament has placed land reform legislation in the Ninth Schedule, it should get this obstacle out of the way. And in relation to making the surplus land distributed, fit for cultivation, the union government allots every year Rs.10,000 crores at the rate of Rs.2500 per hectare for land development and purchase of inputs. To this should be added incentives for consolidation or cooperatisation

of the small holdings. The problem of unequal incomes and asset distribution in urban areas - among industrialists as shown in their annual balance sheets and MRTP reports, and urban land distribution - has not really begun to be dealt with adequately. In the eighth plan, not only must the land reforms being put in the Ninth Schedule be followed up to identify and cancel all benami land deals and court injunctions but a start should be made in dealing through taxation and the moving of investment away from items of luxury consumption to the implementing the wage goods model, as a means of creating a "more equal society" as was said in the Draft Five Year Plan.[75]

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